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The Winning Formula for Omnichannel Banking in North America

For more than a decade, traditional retailers have been designing customer journeys and sales processes that enable customers to move freely among digital, phone and in-store interactions. These customers increasingly expect to have such seamless experiences with other providers, including banks. However, most banks in the U.S. and Canada are still firmly entrenched in a “multichannel” approach, that is, they offer a choice of channels but a customer’s interaction history does not follow them as they switch between channels—which dramatically reduces the value for the customer. Instead, banks must provide multiple channels that work together as one consistent connection to the bank—an “omnichannel” that recognizes customers and their history regardless of how and where they connect.

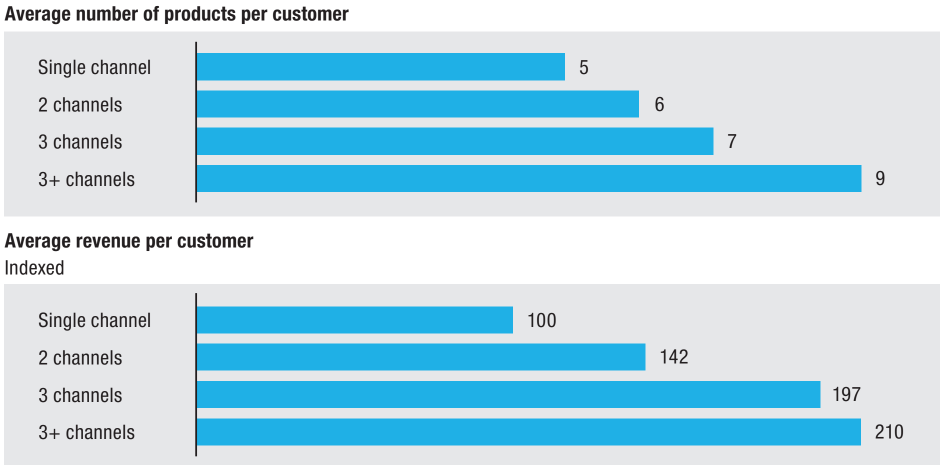
Banks recognize the potential for omnichannel capabilities to increase revenues, enhance customer experience and reduce operating costs, but their progress towards making omnichannel a reality has been inconsistent. McKinsey’s perspective is that banks should focus on six imperatives in order to make a successful transition to omnichannel. This view is based on research efforts that include McKinsey’s 2015 and 2016 Finalta research with more than 25 North American banks and over 150 global banks; a partnership with journey analytics firm Clickfox; and the McKinsey 2015 Retail Banking Consumer Survey.

1. Capture the value of increased product penetration and usage

Customers who use multiple channels create more value for their bank, according to McKinsey research. Customers who use a single channel hold, on average, five products offered by the bank. Those who use three channels hold an average of seven products; and those who use more than three channels average nine (Exhibit 1). Similarly, customers who use three or more channels contribute more than twice the revenue of customers who use one channel.

Exhibit 1

Customers who use more channels hold more products



Source: McKinsey & Company analysis

Omnichannel engagement leads to higher levels of product use. At one bank, McKinsey found that credit card customers who interacted with the bank through multiple channels were almost two times more likely to use their card than customers who did not interact through any channel and 50 percent more likely to use their card than those who interact through one channel.

Banks that have an omnichannel strategy perform better in each channel, according to Finalta research. For example, among global banks, those that offer authenticated click-to-call from their mobile or online platforms have a “speed to answer” that is twice as fast and have reduced call abandon rates by 1.2 times. The 60 percent of U.S. banks that offer web chat have 1.4 times higher digital sales and 13 percent fewer inbound service calls than the 40 percent that do not offer web functionality.

The click-to-call feature on one bank’s mobile app illustrates how an omnichannel strategy can enhance the customer experience. Customers can use the click-to-call feature to bypass the contact center’s identification and verification system. They then select from a variety of service and sales topics listed in the app and are connected directly to the appropriate agent without having to re-authenticate themselves. While banks’ ultimate goal should be to transition to an operating model that fully embraces the end-to-end channel experience, they should also look for omnichannel opportunities such as click-to-call to enhance channel integration and capture value.

2. Pursue digital sales to enhance profitability

Banks that enable sales through online and mobile channels have seen clear improvements in profitability and deepening relationships with customers. Digital sales comprise approximately 10 percent of total product sales units for North American banks, according to Finalta, whereas for leading global digital banks,[1] digital sales units contribute almost 27 percent of total product sales units. The advantage for global banks results largely from more developed and integrated digital functionalities, not a difference in customer preferences.

An increasing number of banks offer mobile apps. For example, two-thirds of the leading global banks offer customers the ability to open a deposit account through a

[1] Leading global digital banks are leaders in their markets or geographies in digital sales, migration of transactions to digital channels, and digital adoption, according to McKinsey Finalta research.

mobile app. In North America, three of the big five Canadian banks offer this mobile service; however, only 11 percent of U.S. banks do so. For some banks, mobile apps have already become an important contributor to sales. For the five global banks that lead the pack in terms of mobile app sales, 19 percent of savings accounts and 10 percent of credit card sales are through the mobile app.

However, even banks that are leaders in digital functionality often struggle with digital leakage, as many customers do not complete transactions initiated through digital channels, thus providing an opportunity to capture or stem the digital leakage via other channels. On average, 50 percent of U.S. banking customers who start applications for credit cards online complete the application. For the top five U.S. banks the average completion rate is 60 percent, and for the top five global banks it is 68 percent.

To minimize customer effort and defections during the application process, and maximize digital sales, banks need to offer simple authenticated sales processes with pre-filled applications. According to Finalta, global leaders sell 50 percent of total digital products in authenticated channels—that is, any digital channel where the customer has logged on to use online or mobile banking services in an authenticated environment. Moreover, processes for customized sales (that is, sales processes that are purposefully built for an authenticated environment) in authenticated channels result in an application conversion rate that is 1.5 to 2 times higher than that for channels that lack such bespoke processes. As an example, BB&T enables existing customers to apply for a new product through a link on their accounts summary page; the application has only three required fields. In another example, Caixa offers a full application process entirely within the mobile app and pre-fills all customer information.

Many banks increase customer awareness of additional products by deploying a variety of sales prompts on authenticated sites. These prompts are powered by sophisticated customer relationship management (CRM) systems that generate personalized offers based on customer accounts, balances and spending history. On average, global banks using at least one type of sales prompt in an authenticated site sell 77 percent higher product volume per customer than those that do not use sales prompts. Among global banks, 52 percent use three or more types of sales prompts in their authenticated site. Examples of sales prompts include:

- Sales banners, used by 92 percent of global digital leaders
- A personalized, preapproved product offers page (62 percent of global digital leaders)
- Links near an account balance, or links near "ghost accounts," that is, accounts with no balance shown (54 percent of global leaders)
- Interstitial ads appearing at log-on or log-off (45 percent of global leaders)

3. Quickly share information about incomplete transactions

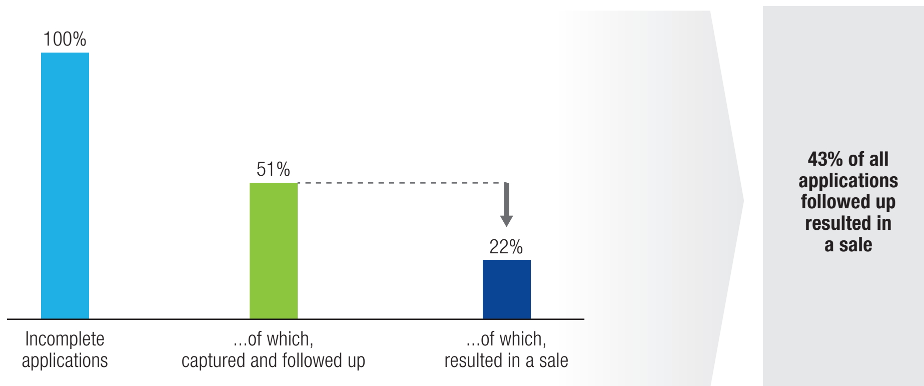
Some customers prefer to start their research process in digital channels and complete it in a branch or by phone. While these customers may clearly indicate their interest in a particular product during their digital research process, most banks do not have the ability to capture this interest and give front-line teams what they need to initiate a meaningful needs-based conversation with the customer.

Of the customers who abandon an online application for a checking account or credit card, 25 percent visit a branch within five days, but do not complete an application

Exhibit 2

A bank based in Asia-Pacific is achieving a 43% conversion rate on follow-ups of abandoned personal loan applications

Sample analysis: Follow up on incomplete personal loan application
Public and secure sites, top global performer



Source: McKinsey & Company analysis; Finalta

at the branch, according to Clickfox data. Similarly, at one North American bank, 25 percent of customers who abandon a digital checking account application call the contact center within five days, but do not open an account at that time. Only 10 percent of this bank's customers who arrive at a branch after abandoning the digital application are given an appointment to speak with a sales representative. This failure to connect customers with a sales rep is especially harmful, because customers with branch appointments are 25 percent more likely to complete purchases.

While building capabilities to fulfill sales in the digital channel, banks should also focus on reducing customer friction points and cross-channel leakage. Examples of ways to achieve this include creating a consistent and seamless identification and verification capability; enabling customers to pause, save, retrieve and resume an incomplete digital application; giving customers the option to book a branch appointment online and via mobile; and using trigger-based tools, such as daily reporting and CRM systems, to inform front-line staff of each customer's recent digital activity and giving front-line staff suggestions for products to discuss with customers based on their profiles and needs.

As an example, a leading North American bank has linked its digital sales process with its contact center. If a customer drops out of a digital application, a specialist team in the contact center initiates a follow-up call with the customer and can resume the application from where the customer left off. In addition, during the application process, customers can open up a web chat with an agent for help. A top-performing global bank based in the Asia-Pacific region follows up on more than 50 percent of abandoned personal loan applications and is achieving a 43 percent conversion rate from those follow-ups (Exhibit 2).

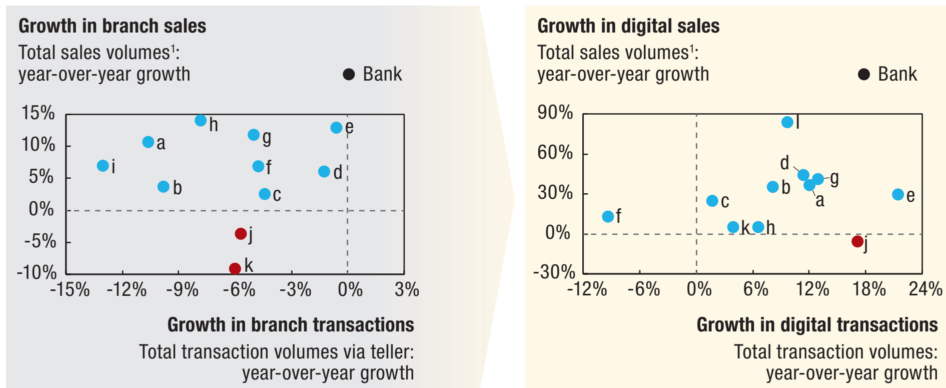
4. Get the mobile experience right

From 2013 through 2016, the number of active mobile channel users at U.S. banks increased by almost 25 percent per year, while the number of online users remained relatively unchanged, according to Finalta. Moreover, the year-over-year growth rate of mobile bill payment and money transfer volumes was, on average, 20 to 25 percentage points higher than that of online bill payment and money transfers volumes.

Exhibit 3

Migration of banking transactions to digital channels has not cannibalized branch sales

North American banking peer group



[1] Total sales volumes include checking accounts, savings accounts, credit cards, unsecured personal loans, auto loans, home equity loans and mortgages

Source: McKinsey & Company analysis; Finalta

However, a strong adoption rate for digital channels—even a rank of first or second among peers—does not necessarily translate into success. The rate of eligible customer enrollment in digital channels and the usage frequency of key digital transaction features, such as bill pay and remote check deposit, are more accurate gauges of whether digital channels are delivering value.

Mobile users log on almost twice as often as online users. Mobile log-ons per customer have been growing at an average of 12 percent per year in the U.S., whereas online log-ons per customer have been flat year-over-year, according to Finalta. Seamless mobile functionality drives mobile adoption and log-on frequency. This, in turn, enhances customers' experience, as they can access information and conduct transactions at any time and from any location.

Banks are increasing the volume of customers' mobile interactions and the degree of engagement by making it easier to access key features (through, for example, quick balance checking and biometric log-ins) and by introducing value-added features, such as in-app chat sessions and location-based offers.

Although leading banks take the entire customer journey into account, they are designing and developing for mobile as their top priority, followed by online channels and the branch. Banks need to design for mobile first to capitalize on customers' rapidly growing adoption and frequent use of mobile apps.

5. Migrate branch transactions to digital channels

In Finalta's sample of leading North American banks that have successfully migrated branch transactions to digital channels, digital sales volumes grew by 26 percent, compared with 5 percent growth in branch sales (Exhibit 3). For these banks, overall sales grew by 5 percent, indicating that digital is complementing, not cannibalizing, branch sales.

Banks are moving to migrate cash and check transactions to digital channels. In the U.S., the proportion of deposits made through digital channels has increased by

Omnichannel in retail

U.S. retailer Macy's offers customers a high degree of personalization in its stores with the ShopBeacon/Shopkick app, which is built on Apple's iBeacon protocol. Shopkick sends sale and discount alerts based on a user's proximity to an iBeacon and offers rewards simply for entering a store. Burberry is using RFID technology to integrate a digital experience into the brick-and-mortar world. Chips embedded into clothing and accessories trigger relevant content—videos on craftsmanship, runway shows—on shoppers' smartphones or tablets—or in some stores on mirrors that double as screens. Walmart aligns in-store and digital sales incentives—store managers get credit for online sales, so that they are incentivized to help customers complete sales through a digital channel. The retailer has also introduced an app that lets customers use their mobile phones for a "scan and go" checkout.

4.4 times to 11.4 percent in the last four years. However, the proportion of money transfers and payments in digital channels has grown slowly (from 88 to 92 percent during the past four years). In markets such as Australia and New Zealand, close to 98 percent of money transfers and payments go through digital channels, with only 1 percent occurring in branches. In 2015, banks with above-average growth in digital adoption saw the proportion of branch cash and check deposits shrink at more than twice the rate of those with lower digital adoption, freeing up branch resources to focus on higher-value activities.

U.S. banks are seeing a significant reduction in the unit cost of transactions completed in digital or self-serve channels (such as ATMs) compared with those completed in branches. For example, U.S. banks have captured, on average, a 95 percent cost reduction per deposit transaction completed in digital channels ($0.03 in digital versus $0.65 in a branch). Similarly, banks have achieved, on average, an 88 percent cost reduction per withdrawal transaction completed in a self-serve channel ($0.08 at an ATM versus $0.65 in a branch). These savings lead to a total transaction cost reduction of 3.5 percent, on average, for deposits and withdrawals annually. The annual transaction cost reduction can range anywhere from $2 million for small regional banks to $12 million for large banks.[2]

Banks can accelerate omnichannel adoption and promote higher customer engagement by implementing a detailed playbook. The playbook should include customer and employee education and incentives, adjustments to branch layouts and roles (including digital "zones" where customers can try out digital channels with assistance from staff serving as digital "ambassadors"), and simplifying and optimizing the functionality of digital channels. Banks should explore adopting a migration strategy that is differentiated by customer segment and profile, and accounts for existing "real world" preferences. For example, banks can offer virtual passbooks to customers who value the real thing, thus giving them a reason to continue visiting the branch.

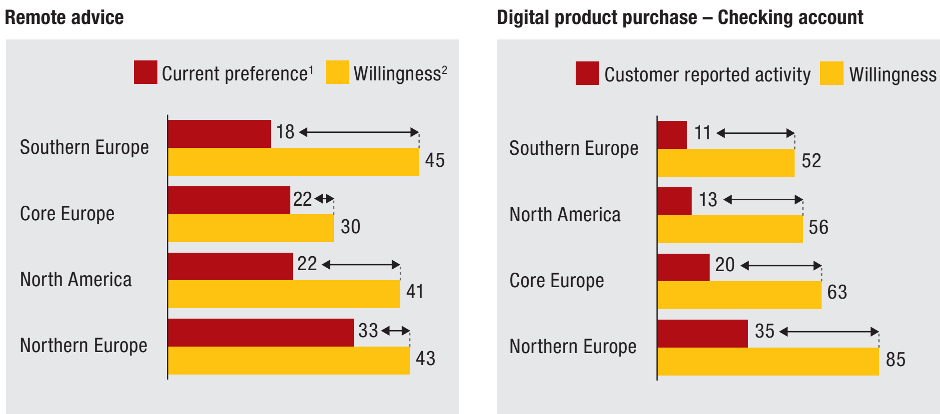
Banks that maximize the benefits of an omnichannel strategy focus on several areas:

- *Simplifying the enrollment and transaction process*. NatWest and Barclays have developed a "quick transfer" capability in their authenticated sites, placing transfer and payment tools directly on the account summary page. Customers can use these tools to complete transactions without having to navigate to additional web pages.

[2] Cost savings opportunity modeled with following estimates: deposit or withdrawal costs $0.65 in the branch, $0.08 at the ATM, and $0.03 on the mobile app.

Exhibit 4

Willingness to use remote advice and sales outstrips usage, indicating supply constraints



[1] Indicates percentage of respondents who state that their current preference is for remote advice for complex products
[2] Indicates percentage of respondents who state they are willing to use remote advice for complex products
Source: McKinsey Retail Banking Consumer Survey 2016

- *Facilitating in-app transactions.* Westpac enables mobile app users to transfer money between their accounts without logging onto the app. Customers can complete the process in one step, which reduces the hassle and streamlines the experience of using the app.
- *Driving promotional campaigns.* Banks such as the UK's Santander and Australia's Bank of Melbourne place sales prompts and promotions or product links on the mobile app log-on screen, where they can capture the attention of customers who open the app only intending to check balances.

Lloyds Bank, as an example, is investing more than $1 billion (£1 billion) between 2015 and 2017 in a digital transformation of key end-to-end customer journeys in their retail and commercial banking and insurance businesses. The goal is to provide a seamless, omnichannel experience, with more self-service, increased automation, and a reduction in manual work.

6. Tap into customer preference for virtual interactions

Although some customers still prefer to engage face-to-face with a relationship manager, a growing number prefer virtual interactions—for example, through phone or video conference. Financial advice is a critical area where customers are increasingly receptive to virtual interactions.

According to McKinsey's 2015 Retail Banking Consumer Survey, 41 percent of North American customers are willing to use remote channels for advice, but only 22 percent are doing so today. Demand for remote advice and digital products outstrips usage in several regions (Exhibit 4). More affluent customers are even more willing than customers in other groups to engage with an advisor remotely. Younger customers are generally more open to virtual interaction than older customers—for example, only about 30 percent of customers aged 60 or older say they would be comfortable working with a remote advisor.

To increase penetration in the affluent and emerging affluent segments, BBVA has introduced omnichannel capabilities for remote relationship management to all of its

Six insights on omnichannel

- *Omnichannel customers have higher value.* Customers who interact through multiple channels hold 80 percent more products with the bank and generate more than twice the revenue as customers who only interact through a single channel.
- *Digital sales matter a lot.* Best-in-class global banks rely on digitization to contribute almost one-quarter of all product sales. The top five global banks, in terms of digital sales contribution, average 50 percent of sales in digital channels, and the top global performer is driving 65 percent.
- *Quick action can close sales in another channel.* By quickly notifying branch or call center staff about an abandoned online application, banks can assist the customer in completing the transaction. This is a common missed opportunity today. Of customers who abandon an online application for a checking account or credit card, 25 percent visit a branch within five days, but do not complete an application there.
- *Mobile is the gateway to the omnichannel experience.* Mobile channel users log on almost twice as often as online users. And mobile log-ons per customer have been growing at an average rate of 10 percent per year, whereas online log-ons per customer have been declining at an average rate of 6 percent per year. In response, leading banks have made mobile their top priority within the omnichannel experience.
- *Migrating transactions to digital boosts sales.* Banks that have successfully migrated transactions from branches to digital channels have seen overall sales grow by 5 percent, indicating that digital is complementing, not cannibalizing, branch sales. These banks are also achieving cost efficiencies, thus driving true omnichannel value.
- *Virtual interactions are an untapped opportunity.* Forty-one percent of North American customers are willing to use remote channels for advice, but only 22 percent are using them today. By identifying the customers who are most receptive to having virtual interactions, banks can tap into the full potential of the omnichannel experience.

wealth management customers. These capabilities integrate sales, advice and services by phone, e-mail, video, and online or mobile platforms.

■ ■ ■

To capture the full potential of omnichannel banking, banks must do more than add channels. They must make sure that channels complement, rather than substitute for, each other. Seamless integration of channels through the deployment of a common digital platform provides the basis for success.

The CEO or head of retail banking must be highly engaged and provide direction for the process to work. Since no single channel or division is the main beneficiary, it is essential for top leadership to drive the transformation.

Like their customers, most banks are aware of the difference between multichannel and omnichannel interactions. The challenge for banks today is to bridge that gap and effectively deliver the truly seamless experience their customers expect.

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