Global Banking & Securities

Transforming the US consumer bank for the next normal

A “wait and see” approach to transformation will not work for banks. Instead, it is a moment for radical creativity. Banks that reimagine how they engage their customers and empower their employees will emerge as leaders.

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Even before the humanitarian and economic challenges of COVID-19, the US consumer banking industry was in the midst of transformational change. Persistently low interest rates had forced banks to revise their business models and seek out new sources of revenue. Consumer desire for simple, quick digital interactions had put pressure on banks to improve customer experience, streamline their processes, and reevaluate the size of their branch networks. The pandemic has accelerated these existing trends—and added new ones.

Although it is unclear how long the crisis will last and exactly how much of this year's shutdown-fueled digital adoption will become permanent, this is not a time to take a "wait and see" approach or put the idea of transformation on hold. Instead, we believe that this is a moment for radical creativity. US consumer banks have a window to develop and implement clean-sheet solutions that will unlock growth in the next normal. These initiatives fall into three critical areas—1) physical distribution, 2) remote advice, and 3) the digitization of sales and service.

None of these levers are new, of course. But the pandemic has heightened the scope of the challenge in each of these areas and created an even bigger window for innovation. For example, the ongoing closure of some branches gives banks the opportunity to fundamentally rethink their networks, build new flexibility into their workforces, and provide their employees with new skills and challenges. The stressed economic environment has left consumers with a greater need for financial advice, while the remote working phenomenon has created a new openness to receiving this advice remotely. And given how digital adoption has raised the bar for consumer expectations of convenience, leading-edge digitization is now more critical than ever. Taking a customer-centered, end-to-end design approach to digital sales and service can lock in and accelerate customer migration and provide a mechanism for funding the overall transformation. Banks can't wait for certainty. To remain relevant and fuel revenue growth during these unusual times, banks need to move full-steam ahead with their distribution, remote advice, and digital sales and service transformations, infusing their solutions with flexibility and resilience.

Optimized physical distribution: Analytics and workforce fluidity

For years, a bank's share of customer deposits was tightly linked to the size of its branch network. Today, physical distribution still matters but other factors, such as a bank's digital maturity, its share of voice, and its customer experience, have gained in importance. During the early stages of the pandemic, as branches closed and people stayed at home, digital banking channels took on new significance. By July 2020, contact center usage in the US was up by about 6 percent and mobile usage was up by about 8 percent, compared to December 2019 (Exhibit 1).[1] With branches opening gradually, this surge has moderated since April 2020. It remains to be seen what will happen when more branches reopen across the US—as of July, 12 percent were still closed[2]—but in a recent survey, 15 to 20 percent of US customers said they expect to increase their use of digital channels once the crisis has passed.[3]

With digital usage likely increasing, banks need to re-evaluate their branch networks. Holding on to excess branch capacity can lead to a bloated cost structure (branches typically represent 20 to 30 percent of a bank's total operational costs). On the other hand, taking out too much branch capacity could adversely impact revenue if digital sales channels have not yet matured. In the COVID-19 era, with some branches closed and customer demand patterns

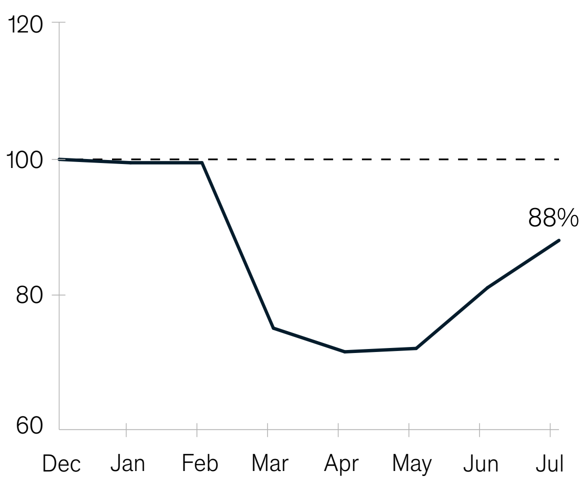
[1] As of July 2020 in the US: 6% increase for contact center use, 8% for mobile interactions, and 3% for online, compared to December, 2019.
[2] Finalta Remote Banking Pulse Check, July 2020.
[3] McKinsey Decision Maker Pulse survey May 2020.

Exhibit 1

Customers are using distribution channels differently through the crisis; as branches have closed, use of contact center, mobile, and online channels has increased.

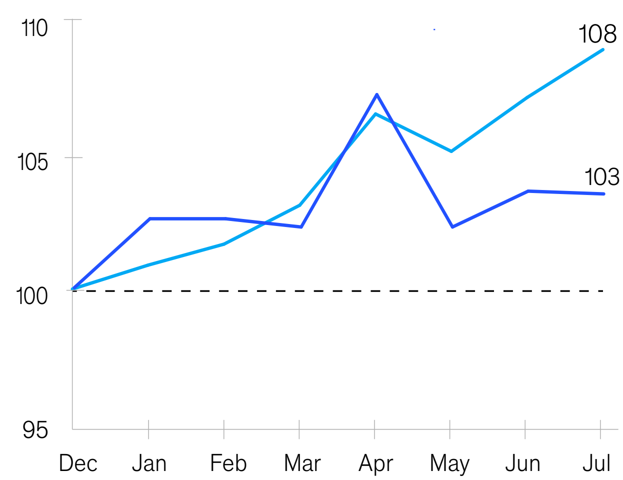
US branch capacity is down roughly 12% since December 2019

Network capacity, Index to Dec 2019 = 100
Branches open to customers



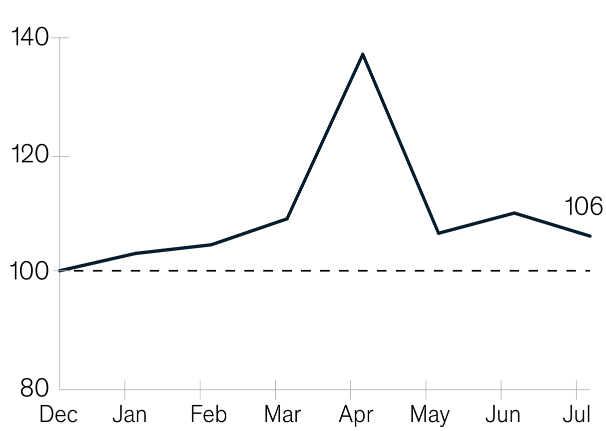
Mobile and online activity continues to increase, with spikes in April

Index to Dec 2019 = 100
30-day users

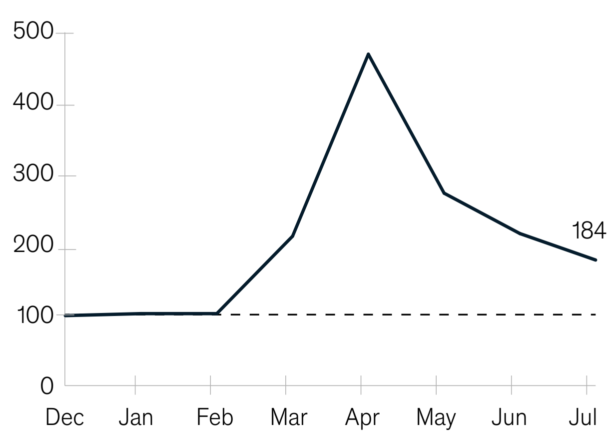


Contact center volumes peaked in April

Call volume per day, Index to Dec 2019 = 100
During month, including unanswered



Call wait time, Index to Dec 2019 = 100
During month, seconds



Source: McKinsey Finalta Remote Banking Pulse Check, July 2020 disrupted, banks have to do more than just figure out the right number of branches. Leading banks are thinking more broadly about capacity—how to better utilize staff and individual roles, both within the branches and throughout the organization. By simultaneously optimizing the branch network and staffing levels, banks can capture the savings of reduced capacity, while retaining the option of adding capacity back if needed.

1. Finding the optimal physical footprint using next-generation analytics

Some bank branches still closed may never reopen and some opened branches may end up needing to be shuttered for good. Figuring out which should stay and which should go, and what should happen to plans for new openings, requires branch analytics, the capabilities of which have advanced significantly over the last five years. Richer data sets and new machine-learning algorithms can now model how each branch contributes to the revenue of other branches located near it (the "halo effect") and how customers are making banking decisions not just based on their closest branch but on the full bank ecosystem around them (e.g., branches, ATMs, marketing/share of voice, competitor assets). Next-generation branch analytics can also model the impact branches have on each product, such as deposits and consumer lending, and can ultimately pinpoint which branches can be closed or reconfigured with the least impact on revenues and new account growth. The resulting increase in branch efficiency can then be used as a funding source for a bank's broader digitization efforts.

2. Choreographing branch roles to address new customer behaviors

By now, most banks have implemented the reconfigurations needed to safeguard customers and employees through the crisis, such as lobby closures, appointment-only visits, and glass separators for tellers. The next step is new thinking about branch roles. There's no reason for employee roles to remain fixed or skill sets to be static. For example, with drive-thru tellers and small business bankers currently experiencing high utilization, some banks are cross-training branch managers, who are much less busy, on the skills they need to advise and serve small businesses, thus boosting the capacity to meet changing demand. One US bank recently changed its coverage model for specialist roles like wealth advisors and mortgage bankers, dramatically boosting productivity. It expanded the number of branches each employee covers and adjusted the time spent per branch based on the demand in each location. Such changes not only boost branch productivity, they also help improve customer experience and give branches the ability to move in tandem with customer needs. Additionally, there's a significant benefit to employee morale and motivation, as branch staff gain additional skills and the ability to engage more deeply with customer needs.

3. Developing an omnichannel workforce

The value of an omnichannel customer experience is widely understood throughout the retail banking industry. It's now time for banks to embrace the benefits of a skilled workforce that can move seamlessly between channels. To respond to the surge of customer inquiries coming into contact centers, several banks have trained branch staff on phone-based customer service. Others are exploring how branch bankers can use periods of slower foot traffic to respond to simple customer service requests via email or text—critical areas for serving customers through the crisis—or to follow up with customers who abandon new product applications online or on their phone, in order to boost sales. Banks are considering making these solutions permanent as a way to balance capacity and create a flexible, responsive, and more skilled workforce. Having an omnichannel workforce and branch employees trained in multiple jobs also ensures that branch utilization and efficiency remain high, regardless of customer traffic.

The creation of such an omnichannel workforce requires the development of several key capabilities. Banks need to have clearly defined talent pools, lay out development paths, as well as mechanisms to incentivize and support broadening skills for employees, and establish efficient organizational decision rights and

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effective reporting lines. Robust workforce planning capabilities are also needed in order to load-balance capacity across channels. Technology will also be important, such as the ability for employees to seamlessly access multiple systems across channels and for managers to have an on-demand view of employee uptime/downtime.

Remote advice: New markets and proactive sales

While some leading global banks have transitioned 20 percent or more of their front-line salesforces to a remote model, most North American banks still rely on branch traffic to drive sales. Now, with many branches still closed, some staff working from home, and others stretched thin inside branches, we believe this is the time for US banks to commit to making remote advice a core component of frontline sales—both during the pandemic and beyond. The economic strain and uncertainty many consumers feel has fueled a desire for sound financial advice and planning, and an openness to new products. A recent McKinsey survey of 1000 mass affluent US customers showed that 53 percent believe their finances will be impacted by the COVID-19 situation for at least another four months. And with 42 percent of the US labor force now working fulltime from home (as of June 2020), there is a much broader acceptance of remote advisory models.[4]

Yet this is not a moment for simply putting a virtual spin on existing sales processes. The desire for advice and willingness to engage virtually presents new business model opportunities. Using phone and digital channels, advisors can cost-effectively provide high-quality service to more customers than they can at branches. For example, instead of sticking with the traditional markets of affluent consumers and small businesses, banks can target new segments, such as lower income or younger consumers. A European bank, for instance, saw white space in the mass-affluent home-buying population and trained its remote advisors to offer customers targeted advice at key decision points in the home-buying journey. As a result, customers came to view getting advice and product information online as more available, personal, and informative than going into the branch or calling the contact center. The bank saw a significant uptick in remote channel adoption among customers.

Such innovative, at-scale remote advice can deliver significant value. One global bank, for instance, achieved a 40 percent lift in advisor productivity when it transitioned nearly 45 percent of all its customer meetings to a remote model. A Latin American bank boosted sales by 10 percent while also improving customer experience when it shifted one million customers to a remote advice channel. Scaling such a model requires treating remote advice not as an

[4] Stanford Institute for Economic Policy Research, survey conducted June 2020.

extension of the service contact center, but as a core sales channel that should be incentivized to work collaboratively with advisors inside the branches. Banks should also think carefully about what exactly this model will entail (see sidebar "Finding the right remote model").

Advising customers remotely also requires new skills and entails new challenges. Instead of interacting with customers who walk into a branch, remote advisors have to proactively locate customers. In a recent survey with a US-based bank, 85 percent of the bank's frontline salespeople reported that client prospecting is harder while working from home, while 50 percent said they were working longer hours. Although banks took urgent actions over the last few months to enable their employees to work from home, they did not have time to train people in additional skills. Some 35 percent of frontline salespeople said they were receiving less coaching than before the crisis (Exhibit 2, next page). To get real value from remote advice, banks will need to invest in meaningful formal training, and on-the-job coaching.

Finding the right remote model

Answering the following core questions can help banks make the right operating model design choices for the transition of a critical mass of their salesforce (north of 20 percent) to remote advice channels.

— Within the target customer segment, which customers get access to the remote channel first?

— How will customers be assigned to the remote channel (e.g., self-selection, historical channel usage)?

— Who will own the existing customer book? How will books be transferred between physical and remote advisors?

— Who will prospect new customers (e.g., remote advisors, branch, dedicated prospecting team)?

— What is the initial set of products remote advisors/bankers will be able to fulfill? How will product fulfillment capabilities be enhanced over time?

— What is the role of other channels (e.g., branches) in driving adoption of the remote channel (e.g., referral, warm transfer)?

— What is the employee value proposition needed to support the remote sales model? How will remote advisors be incentivized?

— How will this work in tandem with branch goals and compensation?

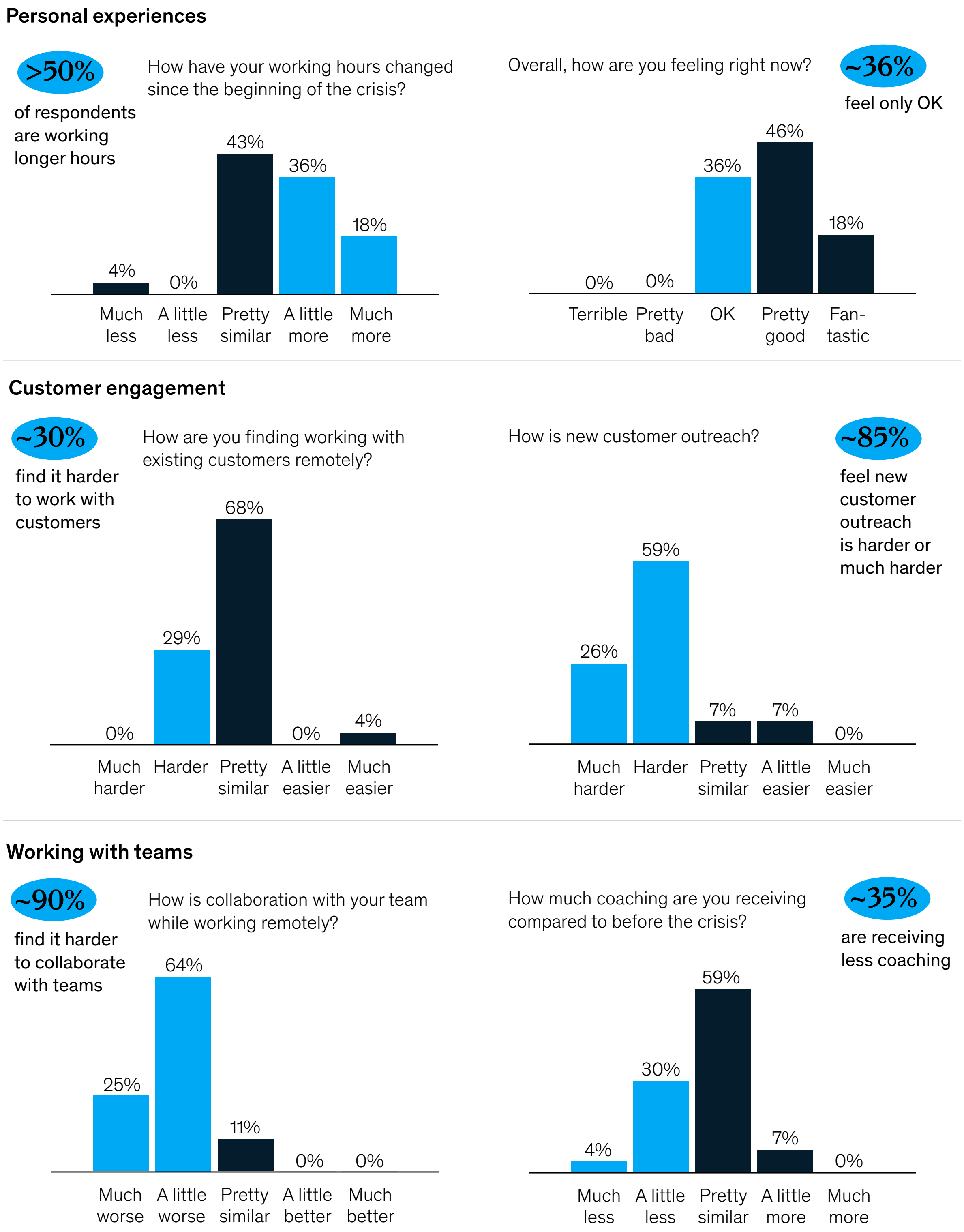
— Who will remote advisors report to (e.g., regional structure, central structure)?

— What will be the career path for remote advisors? What skills and capability-building will they require to advance and develop?

— Where will remote advisors be located? How can team cohesion be achieved in a work-from-home setting?

Exhibit 2

For front-line salespeople, proactive customer outreach has become much harder, and coaching is not as accessible.



Source: Survey responses from select front-line sales roles at a US bank.

Digitization of sales and service: Convenience redefined

Regardless of whether the recent increases in digital adoption persist beyond COVID-19, the longstanding trend of consumers and businesses shifting away from branches and toward digital channels will continue. Yet despite several years of digitization efforts, the average US bank trails its upper-quartile counterpart by a significant margin in terms of digital adoption, particularly in credit cards, auto loans, and mortgages (Exhibit 3).

To boost digital customer experience, banks need to design their solutions based on a deep understanding of what drives customer perceptions of convenience. For a long time, this meant a branch on every corner. Today, while physical presence remains important, convenience also correlates with the ease, speed, and simplicity of an omnichannel experience. When customers perceive digital banking interactions and product purchases to be super-convenient, they are more likely to adopt them. Three strategic interventions are critical:

1. Design digital journeys based on customer needs, desires, and behaviors

The biggest reason companies fail to capture the full benefits of their digital improvement efforts is that they concentrate on optimizing individual touchpoints rather than first tackling the customer experience as customers actually experience it—the complete journey that cuts across multiple functions and channels. Leading banks are designing holistic, front-to-back digital experiences that include prospecting, sales, onboarding, and ongoing servicing experiences. Only then are they identifying specific pain points in their current offerings (e.g., applications that need human intervention, reported issues, abandonment rates, level of straight-through-processing, and level of automated decisioning) and deploying targeted digital solutions. One large US bank recently did a holistic assessment of its consumer journeys across all products and channels and estimated the value at stake (across revenue, productivity and customer experience) for redesigning these journeys. This allowed the bank to identify the 30 to 50 percent of high-value journeys

Exhibit 3

The average US bank has some ground to make up in terms of digital penetration.

Percentage sales in digital	US bank average, %	US bank upper-quartile average, %
Checking account	17	19
Savings account	14	17
Credit card	28	37
Unsecured personal loans	26	30
Auto loans	17	26
Home equity	13	14
Mortgage	12	20

Source: Finalta Digital & Multichannel benchmark, July 1, 2018 – June 30, 2019.

it should prioritize, redesign, and digitize for outsized impact.

2. Take an omnichannel approach to service
Service transactions are a primary reason for customer visits to a branch and calls to the contact center. With many branches closed and contact centers already at peak capacity, banks have an opportunity to take a more thoughtful and customer-centric approach to customer inquiries. For many simple requests and questions, customer needs can be met through self-serve online and mobile features. Banks should make strategic investments in enhancing these options, which will boost customer experience and further minimize employee time spent on simple or low-value activities. Yet not all customer inquiries can or should be handled by an interactive voice response system or other self-service feature. Customers sometimes want or need to talk to an actual person, especially for complex requests. Banks should provide their customers with the option of human interaction in whatever channel they choose, whether branch, digital, or phone, and these staff members should be able to resolve issues quickly and talk to customers empathetically. Leading banks are doing this by re-skilling branch employees and fostering a culture of customer centricity as part of their development of a flexible, omnichannel workforce.

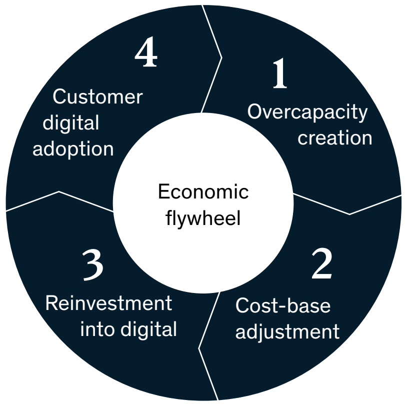
3. Use digital marketing to boost engagement
To thrive in an increasingly digital world, banks will need to use digital marketing not only to acquire new customers, but also to build and strengthen connections with current ones. Given the data-driven nature of digital marketing, these skills differ vastly from those of "legacy" marketing. Keeping customers engaged and lowering attrition requires analytics-powered personalization, customized strategies for different customer segments, and marketing in multiple channels—all while maintaining a sharp focus on developing truly exceptional customer journeys. One global bank, for example, deployed rapid-cycle marketing war rooms across its priority markets. The teams focused on optimizing search engine results, the landing page, the buy-flow conversion rate, and media spends. These levers were accompanied by a redesign of the digital marketing operating model, standardized KPIs and dashboards, and the targeted use of external data (e.g., clickstream data) for improved online targeting. As a result, the bank saw significant boosts in areas including speed-to-revenue capture, mobile checking applications, cards activated, and organic search traffic.

The question of how to fund all these investments in digital capabilities is never a simple one. When digital initiatives are viewed separately from physical sales and service, banks have a hard time reaping the cost savings from digital improvements. To overcome this, leading banks have linked their digital and physical channels to create a flywheel effect. As they close or downsize branches or re-deploy branch employees for the digital channel or contact center, these banks quantify the cost of this capacity and use it to fund the initial set of digital investments. Then as customer adoption of these digital assets grows, additional capacity is unlocked from branches and back-end operations, setting a virtuous cycle into motion (Exhibit 4, next page). Tightly coupling the physical with the digital ensures cost-reduction discipline and serves as an excellent prioritization mechanism for digital initiatives. Ensuring that during this process the organization is also building increasing digital fluency among its employees and fostering a sense of connection to the impact these changes have on customers' lives and communities creates a foundation for ongoing adaptability of the workforce to the changing customer landscape.

Now more than ever, given the uncertainty around COVID-19 and its human and economic impact, banks should be at the forefront of securing the safety and financial well-being of

Exhibit 4

Customer adoption of digital channels sets a "virtuous cycle" in motion.



1. COVID-19 impact creates structural capacity in branch network as customers interact digitally
2. Banks adjust branch cost base, including redeploying branch workforce to new customer-facing roles
3. Banks invest freed-up capital in digital sales and servicing journeys
4. Customers adopt new digital assets with superior functionality and availability

Source: McKinsey analysis

their customers. To deliver on this promise, banks need to react swiftly to rapidly shifting customer needs—the heightened demands for digital access and services, and for advice about how to navigate a challenging economic environment. Banks also have an opportunity to connect more deeply with their employees, empowering them with new skills and behaviors that will allow them—and the bank—to adapt to changing times.

US consumer banks will need to make fundamental changes to their business model—reimagining physical distribution, rapidly scaling up remote channels, and digitizing servicing and sales at pace. Despite the uncertainty about the course of the pandemic, the time to act is now. Those that do so will emerge more dynamic and resilient, with a more attractive value proposition, lower cost structure, and higher profitability.

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