

Operations Practice

The next frontier of customer engagement: AI-enabled customer service

AI-enabled customer service is now the quickest and most effective route for institutions to deliver personalized, proactive experiences that drive customer engagement.

This article is a collaborative effort by Avinash Chandra Das, Greg Phalin, Ishwar Lal Patidar, Malcolm Gomes, Rakshit Sawhney, and Renny Thomas, representing views from McKinsey's Operations Practice.



How to engage customers—and keep them engaged—is a focal question for organizations across the business-to-consumer (B2C) landscape, where disintermediation by digital platforms continues to erode traditional business models. Engaged customers are more loyal, have more touchpoints with their chosen brands, and deliver greater value over their lifetime.

Yet financial institutions have often struggled to secure the deep consumer engagement typical in other mobile app—intermediated services. The average visit to a bank app lasts only half as long as a visit to an online shopping app, and only one-quarter as long as a visit to a gaming app. Hence, customer service offers one of the few opportunities available to transform financial-services interactions into memorable and long-lasting engagements.

Those customers are getting harder to please. Two-thirds of millennials expect real-time customer service, for example, and three-quarters of all customers expect consistent cross-channel service experience. And with cost pressures rising at least as quickly as service expectations, the obvious response—adding more well-trained employees to deliver great customer service—isn't a viable option.

Companies are therefore turning to AI to deliver the proactive, personalized service customers want, when and how they want it—sometimes even before they know they want it. For transformed organizations, AI-enabled customer service can increase customer engagement, resulting in increased cross-sell and upsell opportunities while reducing cost-to-serve. In global banking alone, research from McKinsey conducted in 2020 estimates that AI technologies could potentially deliver up to \$1 trillion of additional value each year, of which revamped customer service accounts for a significant portion.¹

While a few leading institutions are now transforming their customer service through apps, and new interfaces like social and easy payment systems, many across the industry are still playing catch-up. Institutions are finding that making the

most of AI tools to transform customer service is not simply a case of deploying the latest technology. Customer service leaders face challenges ranging from selecting the most important use cases for AI to integrating technology with legacy systems and finding the right talent and organizational governance structures.

But done well, an AI-enabled customer service transformation can unlock significant value for the business—creating a virtuous circle of better service, higher satisfaction, and increasing customer engagement.

The perils and promise of AI customer engagement

Multiple converging factors have made the case for AI-based customer service transformation stronger than ever. Among the most important: increased customer acceptance of (and even preference for) machine-led conversational AI interactions. Meanwhile, related technologies such as messaging platforms are becoming more accessible, and customer behaviors are becoming more understandable with the relentless expansion of data pools institutions can collect and analyze.

Three challenges

But challenges also loom. First, *complexity*. The COVID-19 pandemic acted as a major catalyst for migration to self-service digital channels, and customers continue to show a preference for digital servicing channels as the “first point of contact.” As a result, customers increasingly turn to contact centers and assisted-chat functions for more complicated needs. That raises the second issue: *higher expectations*. Customer confidence in self-service channels for transactional activities is leading them to expect similar outcomes for more involved requests. Businesses are therefore rapidly adopting conversational AI, proactive nudges, and predictive engines to transform every point of the customer service experience. Yet these moves raise demand for highly sought-after skills, generating the third challenge: *squeezed labor markets* that leave customer service leaders struggling to fill crucial roles.

¹ “AI bank of the future: Can banks meet the AI challenge,” McKinsey, September 19, 2020.

How leaders fulfill AI's customer engagement promise

Leaders in AI-enabled customer engagement have committed to an ongoing journey of investment, learning, and improvement, through five levels of maturity. At level one, servicing is predominantly manual, paper-based, and high-touch. At level

five—the most advanced end of the maturity scale—companies are delivering proactive, service-led engagement, which lets them handle more than 95 percent of their service interactions via AI and digital channels (see sidebar, “What AI-driven customer service maturity looks like”).

What AI-driven customer service maturity looks like

A few leading institutions have reached level four on a five-level scale describing the maturity of a company's AI-driven customer service.

Level 1: Manual and high-touch, based on paper forms and offered largely via assisted channels.

- Reactive service, with the majority of interactions on human-assisted channels
- Paper use is still prevalent

Level 2: Partly automated and basic digital channels, with digitization and automation of servicing in assisted channels.

- Reactive service, with limited self-servicing opportunities
- Lower adoption of available self-service channels
- Lower availability of digital or straight-through-processing (STP)

Level 3: Accessible and speedy service via digital channels, with self-servicing on select channels and a focus on enabling end-to-end resolution.

- Somewhat proactive, but limited engagement
- Self-service channels such as mobile apps, interactive voice response (IVR) systems, and internet sites handle half of all interactions, and can support STP.

Level 4: Proactive and efficient engagement deploying AI-enabled tech, with self-servicing enabled by proactive customer interactions and conversational user experience (UX).

- Proactive, with high customer engagement on digital channels
- Self-service channels such as mobile apps, IVR systems, and internet sites handle 70-80 percent of interactions and can support most requests and transactions

Level 5: Personalized, digitally enabled engagement, bringing back the human touch via predictive intent recognition.

- Engagement via service interactions that are personalized and proactive at the individual customer level
- Digital touchpoints drive service-based engagement, for example via enhanced cross-selling and upselling
- More than 95 percent of service interactions and requests can be solved via digital and STP channels

The most mature companies tend to operate in digital-native sectors like ecommerce, taxi aggregation, and over-the-top (OTT) media services. In more traditional B2C sectors, such as banking, telecommunications, and insurance, some organizations have reached levels three and four of the maturity scale, with the most advanced players beginning to push towards level five. These businesses are using AI and technology to support proactive and personalized customer engagement through self-serve tools, revamped apps, new interfaces, dynamic interactive voice response (IVR), and chat.

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Toward engaging, AI-powered customer service

To achieve the promise of AI-enabled customer service, companies can match the reimagined vision for engagement across all customer touchpoints

to the appropriate AI-powered tools, core technology, and data. Exhibit 1 captures the new model for customer service—from communicating with customers before they even reach out with a specific need, through to providing AI-supported solutions and evaluating performance after the fact.

The human factor in AI-supported service

AI-powered does not mean automation-only. It's true that chatbots and similar technology can deliver proactive customer outreach, reducing human-assisted volumes and costs while simplifying the client experience. Nevertheless, an estimated 75 percent of customers use multiple channels in their ongoing experience.² A reimagined AI-supported customer service model therefore encompasses all touchpoints—not only digital self-service channels but also agent-supported options in branches or on social-media platforms, where AI can assist employees in real time to deliver high-quality outcomes.

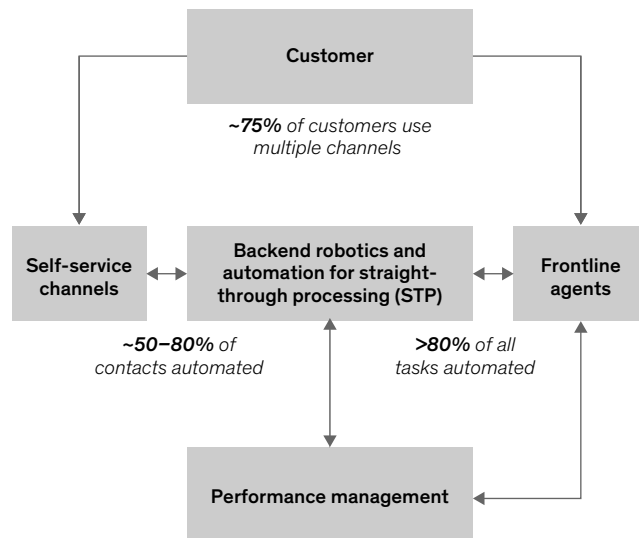
Even before customers get in touch, an AI-supported system can anticipate their likely

Exhibit 1

The future of customer service builds on AI to deliver engaging experiences and generate lasting value.

The stages of an AI-supported customer-service process

- A Proactive communication**
linked to key demand drivers
- B Intent recognition and nudges**
before customer reaches out
- C Omnichannel enablement**
with self-service for service journeys
- D Conversational AI**
at each entry point
- E Frontline enablement** with coaching for agents supported by a knowledge repository and AI
- F Highly personalized, advisory interactions** drive relationship and value, with STP or quick resolution of issues
- G Performance measurement** via a centrally managed nerve center that tracks resolution accuracy and efficiency



² "The state of customer care in 2022," McKinsey, July 8, 2022.

needs and generate prompts for the agent. For example, the system might flag that the customer's credit-card bill is higher than usual, while also highlighting minimum-balance requirements and suggesting payment-plan options to offer. If the customer calls, the agent can not only address an immediate question, but also offer support that deepens the relationship and potentially avoids an additional call from the customer later on.

AI service in the field: an Asian bank's experience

Put together, next-generation customer service aligns AI, technology, and data to reimagine customer service (Exhibit 2). That was the approach a fast-growing bank in Asia took when it found itself facing increasing complaints, slow resolution times, rising cost-to-serve, and low uptake of self-service channels.

Over a 12-month period, the bank reimaged engagement. It revamped existing channels, improving straight-through processing in

self-service options while launching new, dedicated video and social-media channels. To drive a personalized experience, servicing channels are supported by AI-powered decision making, including speech and sentiment analytics to enable automated intent recognition and resolution. Enhanced measurement practices provide real-time tracking of performance against customer engagement aspirations, targets, and service level agreements, while new governance models and processes deal with issues such as service request backlogs.

Underpinning the vision is an API-driven tech stack, which in the future may also include edge technologies like next-best-action solutions and behavioral analytics. And finally, the entire transformation is implemented and sustained via an integrated operating model, bringing together service, business, and product leaders, together with a capability-building academy.

Exhibit 2

AI-enabled customer service excellence spans nine critical components.

Components

Reimagined engagement

- 1 New or upgraded self-service channels with automated journeys
- 2 Modernized assisted channels (contact centers, branches) with tech-enabled front-line
- 3 Preemptive, proactive end-to-end customer communications
- 4 Reimagined straight-through service journeys with standard operating procedures across all channels
- 5 Simplified, templated service-to-sales interactions

AI-powered decisioning

- 6 AI-enabled automated intent recognition and resolution layer
- 7 Measurements and governance—nerve center for descriptive and predictive analytics

Core tech and data

- 8 Technologies including cloud-based telephony and integrated CRM are embedded into an API-driven tech stack

Operating model

- 9 Integrated service, business, and product operating models, with capability-building academy

The transformation resulted in a doubling to tripling of self-service channel use, a 40 to 50 percent reduction in service interactions, and a more than 20 percent reduction in cost-to-serve. Incidence ratios on assisted channels fell by 20-30 percent, improving both the customer and employee experience.

Seizing the opportunity

To leapfrog competitors in using customer service to foster engagement, financial institutions can start by focusing on a few imperatives.

- Envision the future of service, keeping customers and their engagement at the core while also defining the strategic value to be attained—for example, a larger share of wallet with existing customers? Expansion of particular services, lines of business, or demographics?
- Rethink every customer touchpoint, whether digital or assisted, together with opportunities to enhance the experience while also increasing efficiencies.

- Maximize every customer service interaction, to deepen customer relationships, build loyalty, and drive greater value over the customer's lifetime.
- Leverage AI and an end-to-end technology stack, to provide a more proactive and personalized customer service experience that supports self-service and decision-making for customers as well as employees .
- Adapt agile and collaborative approaches to drive transformation, comprised of SMEs from different business and support functions of the organization.

Holistically transforming customer service into engagement through re-imagined, AI-led capabilities can improve customer experience, reduce costs, and increase sales, helping businesses maximize value over the customer lifetime. For institutions, the time to act is now.

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The authors wish to thank Amit Gupta, John Larson, and Thomas Wind for their contributions to this article.

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