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The balancing act: Omnichannel excellence in retail banking

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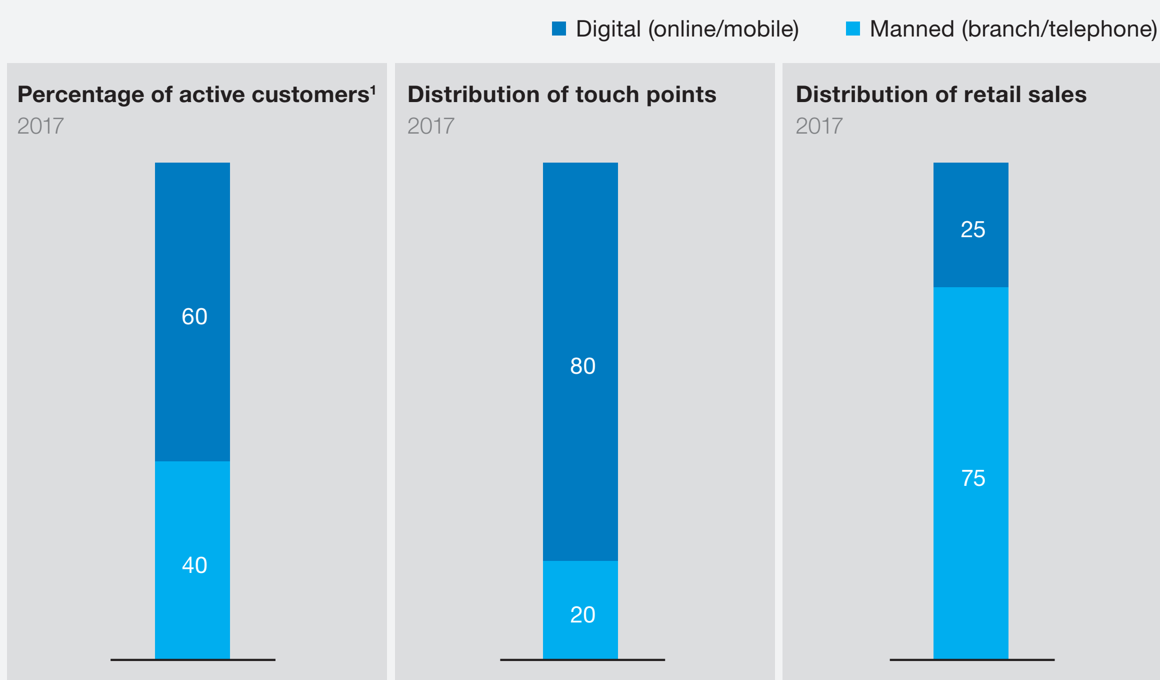
While digital banking has become the default for many customers, there are still those who value the personal touch. And even those who favor banking through an app often prefer face-to-face interactions for complex financial products. As banks continue to make progress in digitizing the customer experience, they must also remember the critical human side of the equation. To maximize sales, banks must effectively combine digital and human channels to create a seamless *omnichannel* offering. One European bank that implemented changes at scale saw consistent sales growth of as much as 20 percent over two to three years, suggesting that the benefits of optimizing omnichannel capabilities are ongoing and significant.

Approximately 60 percent of active banking customers use digital channels (online and mobile)—and 80 percent of all customer touchpoints occur on digital—according to a 2017 survey of banks in Europe, North America, and Asia Pacific (Exhibit 1). On the other hand, digital channels represent just 25 percent of sales (20 percent online, 5 percent mobile). So, while digital channels have transformed banking in many respects, and customers have embraced it, most sales, whether in the branch or on the telephone, still involve human interaction.

As customers migrate to digital channels, banks are realizing cost savings by reducing their physical footprint (in Italy and Spain the number

Exhibit 1

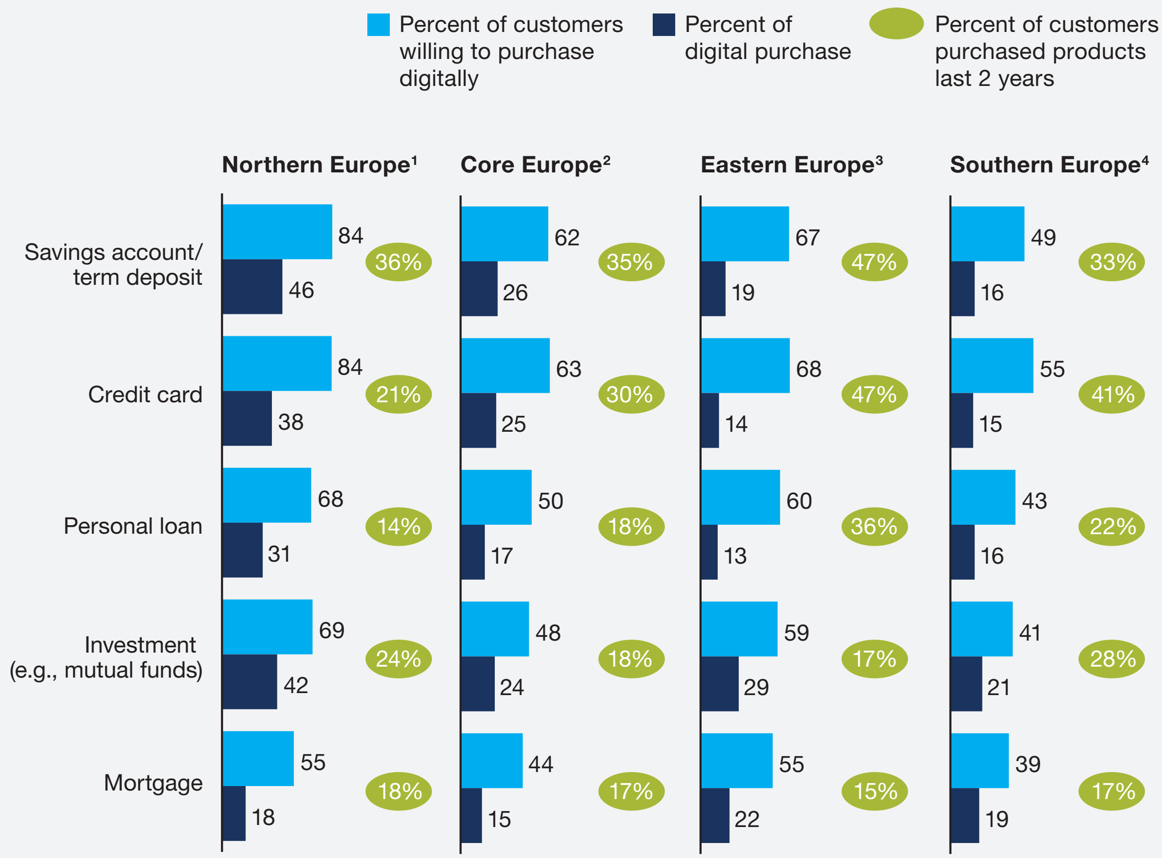
About 60% of banking customers use digital channels; 80% of customer touchpoints and 25% of sales occur on digital.



Source: McKinsey analysis of 2017 data for 200 banks worldwide. Calculated as average of a single bank's figures.

Exhibit 2

Customers are less willing to transact through digital channels for complex products such as investments and mortgages.



[1] Sweden, the Netherlands.
[2] Belgium, France, Germany, United Kingdom.
[3] Poland, Russia, Turkey.
[4] Italy, Spain.
Source: McKinsey Multichannel Survey 2016

of branches has fallen by more than 40 percent from its peak in the 2000s). They are also adapting branch formats to reflect the specifics of local micro-markets, and testing new low-cost distribution models such as non-proprietary retail networks. Branches are also being redesigned to focus on complex products, with remote teams deploying digital tools such as video conferencing and screen-sharing.

Customer appetite for digital interaction varies by product. Customers tend to be less willing to transact through digital channels for complex products such as investments and mortgages (Exhibit 2). Digital enthusiasm also varies by market. Overall sales in Southern Europe, for example, are skewed towards more complex products, such as investments, weighing down total digital sales figures. However, even for simpler products, Southern European retail banking customers are less eager to transact online or by mobile.

Northern European banks have responded to niche demand for advice by training relationship managers to focus on specific products and customer groups, such as first mortgages for younger customers. Advice is usually offered in person or remotely. One bank from the region now conducts 40 percent of its advisory meetings with affluent and mass market clients through remote channels, and has achieved significant productivity gains.

Banks must find the combination of digital and personal interactions that match the preferences of the local markets they serve. Most have made progress, ramping up investment in digitization and remote platforms to complement traditional channels. However, many have not yet made the leap from multiple channels to omnichannel—that is, making movement between channels seamless, and using digitization to enable cross-channel sales and marketing. The result is that banks are missing an opportunity to improve sales productivity.

There are three capabilities banks will need to develop in order to make this jump to true omnichannel distribution:

- **Advanced analytics** and granular customer data for better targeting
- **Marketing personalization across channels**, based on data-driven insights into customer activity and sales journeys
- **A motivated sales force**, equipped with the tools to operate in an omnichannel environment

Advanced analytics for better targeting

Advanced analytics, applied to the data generated by customer transactions and digital banking, can be used to increase the effectiveness of omnichannel sales. Analytics allow banks to develop insights on customer segments and behaviors, and to more precisely target and tailor products and value propositions. The impact can be an increase in sales productivity of as much as 40 percent.

Using data-mining techniques on spending patterns and online behaviors, banks can identify the high-value and high-potential customers that account for a disproportionate share of revenues. They can identify granular behavioral clusters and align targets for sales and value generated, as well as service level and cost to serve. Customer behavior analysis can also be used to optimize lead generation, enabling banks to focus on the right customers at the right time.

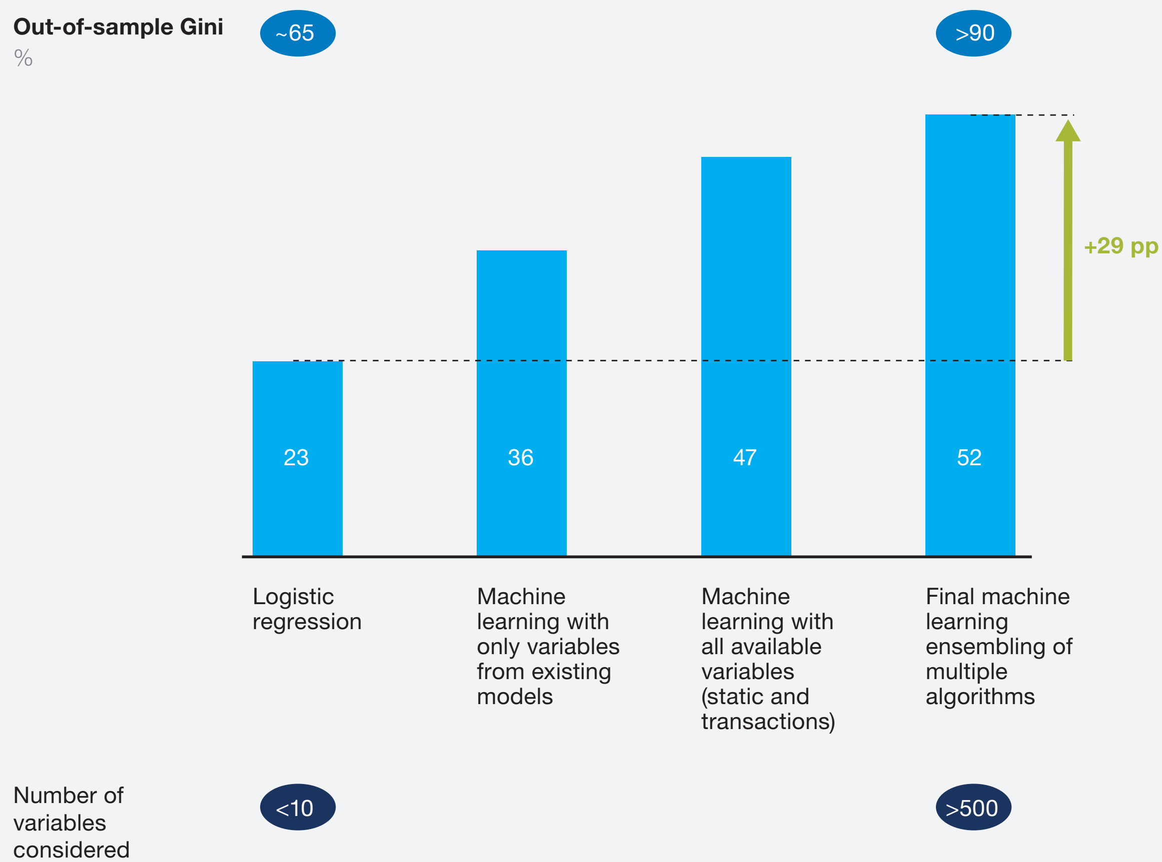
Recent advances in analytics, such as non-linear machine-learning algorithms, combined with new and more granular data, are dramatically improving models' prediction power and customer targeting (Exhibit 3, next page). Some banks almost tripled commercial campaign conversion rates after upgrading their models and integrating traditional static customer profiles with more granular, high-frequency variables and triggers derived from real-time behaviors (e.g., daily transactions or visited pages/activity on the bank's website).

Advanced analytics can also inform product development. A European bank, for example, combined text analytics, XBoosting, and K-means models to identify characteristics of a customer segment that was more likely than others to turn to a rival bank for a loan. This enabled the bank to proactively develop a new product aimed at meeting the needs of these customers.

Advanced analytics only deliver their full potential if a bank's data management capabilities are at a high level—they need to be able to access the

Exhibit 3

Machine learning and extended data usage dramatically improve prediction.



Source: McKinsey & Company

highest possible number of resources and marshal and analyze the data effectively. While internal data is typically a robust source of insights, external data sources such as social media, homebuying websites, or work portals are an increasingly important part of the analytics picture; a few European banks are already making these sources pay.

Marketing personalization across channels

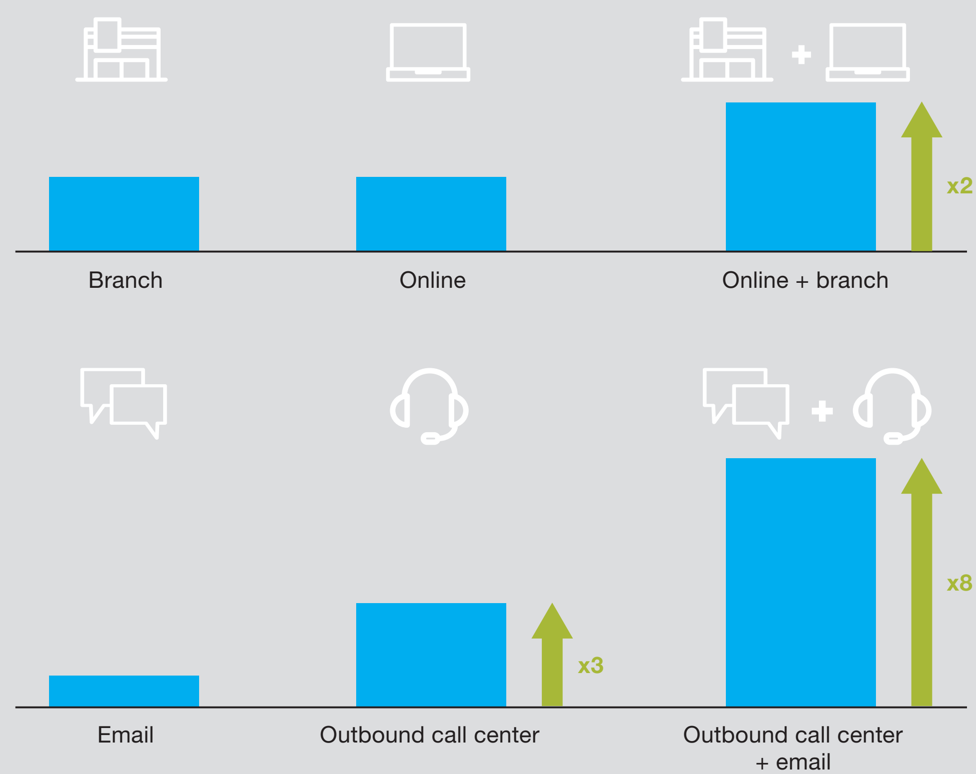
Digitally mature companies in the retail sector make a virtue out of multiple channels, using cross-channel and personalized digital marketing to create bespoke customer journeys. Banks should adopt and adapt these methods, bearing in mind that channel combinations that include human touchpoints tend to be most successful (Exhibit 4, next page).

Digital marketing techniques can lead to significant uplift. Banks can track customer clicks across web pages, measure time spent on

Exhibit 4

Channel combinations that include human touchpoints tend to be most successful.

Percentage of offers resulting in sale, personal loans



Source: McKinsey analysis of 2017 data for 200 banks worldwide. Calculated as average of a single bank's figures.

particular subjects, and connect this data to analytics engines. Messaging can then be personalized based on that data. Customer behavior online can be a clear signal of interest in a particular product or service; banks with the digital capabilities to track these signals can quickly make the right offer.

To support these strategies, banks need to coordinate their efforts across channels, customer relationship management teams, and external agencies; one option is an integrated digital marketing “war room.” Lack of coordination, on the other hand, often results in customers being lost in the gaps between misaligned channels.

In sales, direct channels (emails, internet/mobile banking notifications, text messages) often do not elicit an immediate response or purchasing decision—human intervention is often required to finalize the purchase. In cases where customers do their research online and then work with a person for the final purchase, conversion rates can depend on how well the banking representative responds to first contact. One bank saw an increase of 30 percent in sales when there was an appropriate and timely (24 to 48 hours) human response compared to a purely digital journey.

In a truly omnichannel banking experience, customers can switch from one channel to another without fear of the bank losing track of their journey. One southern European bank built an omnichannel platform for credit card sales that can be interrupted and then completed through any channel. A customer can begin the search online, decide to buy on mobile—clear up some questions by phone—and finalize the purchase back on mobile. The bank was also able to reduce the customer journey from 25 minutes to 3 minutes with immediate PIN and wallet activation.

A balanced collaboration between machines and humans maximizes channel efficiency. Analysis of transaction data, including when and where purchases are made, can help banks get this balance right for customers. The result is sales optimization that takes into account the cost and capacity of individual channels.

Motivating and equipping sales teams

Banks must pay attention to the human side of the omnichannel model, both in terms of sales force competence and motivation. The right digital option at the right time can make the difference between a positive and negative outcome for a customer; but the same applies to human interactions: a timely call from a relationship manager can be just the right action to meet a customer need.

Any discussion of sales motivation in retail banking needs to take into consideration the growing regulatory focus on customer-centric sales models and more balanced performance management. The UK regulator, for example, restricted financial incentives for relationship managers and introduced new guidelines for performance management. The Netherlands regulator imposed caps on variable pay and called for balanced scorecards that reflect customer needs. The impact of regulation can be significant. In the UK, advisor productivity at some banks dropped by 50 percent after new regulatory guidance on incentives was put in place.[1] In response, banks redesigned incentives and increased their focus on customer-centricity.

To navigate this shift effectively, however, banks must offer support in the form of tools, capability building, and performance management frameworks.

Sales tools should help bankers respond to customer needs and provide a seamless experience. Digital touchpoints should be personalized, but it is just as important that the customer needs identified with analytics and digital behavior triggers be immediately conveyed to the relationship manager, enabling them to apply the personalized insights in the branch or on the phone (e.g., suggesting a specific sales script and value proposition for each customer). Early applications of these tools with call-center agents and remote advisors in US banks led to significant increases in digital marketing return on investment and a 20 percent conversion rate lift.

Branch staff are often required to intervene in a customer journey that was initiated or will end in a different channel. Providing the right sales network capabilities can help them make these

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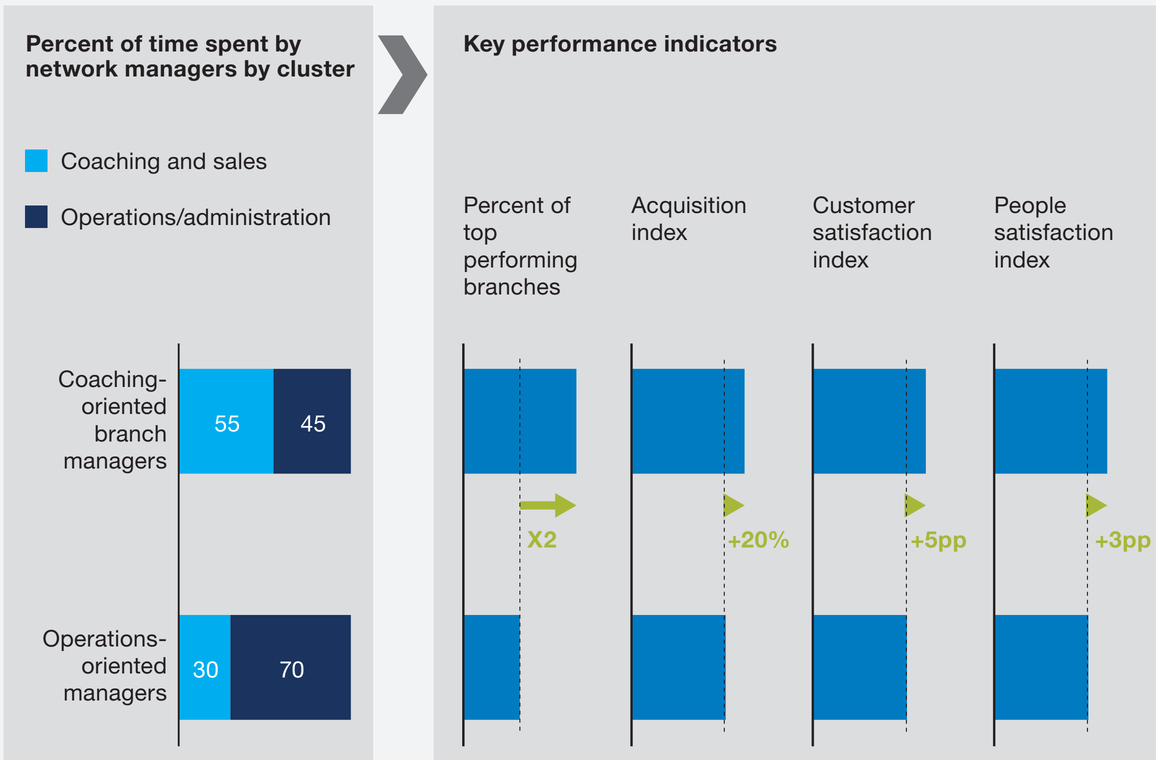
[1] Jonathan Michael, Marukel Nunez Maxwell, and Zubin Taraporevala, “A consumer-centric approach to retail banking sales,” November 2017, McKinsey.com.

Exhibit 5

Coaching-oriented branch managers outperform operations-oriented branch managers in growth and customer satisfaction.



Source: Example from selected Northern European banks

interventions successful. Some banks are investing in digital training platforms containing thousands of highly specific learning objects (e.g., videos, infographics, learning games), aiming to provide continuous, engaging, and focused support. Banks must also increase network management expertise and ability to provide coaching. Recent interviews with UK branch managers suggest that the percentage of time branch managers spend coaching ranges widely, from 10 to 40 percent. Research suggests coaching-oriented branch managers outperform operations-oriented branch managersin several performance metrics, including accounting for double the percentage of top-performing branches (Exhibit 5).

An important part of motivating sales teams is full alignment of incentives with customer needs, which also reduces the risk of mis-selling. In addition, sales should always be assigned to branches and remote advisors that own the client relationship, even when they are executed electronically (e.g., double-counting sales). A collaborative culture is key—the entire organization must share in the approach and senior teams should be actively involved in creating the new sales platforms.

Finally, performance management should be ongoing. KPIs should be aligned to customer needs and be measurable, simple, actionable, and rewarded appropriately. In one example, an Iberian bank set up a sales excellence program that rewarded effort (e.g., number of meetings, number of calls) and sales effectiveness over a short commercial cycle. Every two weeks new objectives and rewards were disseminated through internal media. The result was a significant acceleration in sales force metabolism: a 100 percent increase in contacts made and a 25 percent boost in customer needs met.

■ ■ ■

Omnichannel sales is an imperative for retail banks. Customers may not call it by that name, but they know when it is lacking—for example, when they can't make a seamless channel switch, or their branch banker can't call up an application they just made online. By meeting the demands of customers, banks that invest in omnichannel sales can expect to see material benefits in six months, and continuing improvements thereafter.

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