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Customer-Centricity in Retail Banking



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**Andy Maguire, Nan DasGupta, Richard Helm, Ian Wachters, Ian Walsh,
and Nicole Mönter**

March 2012

AT A GLANCE

To thrive in today's highly challenging business environment, retail banks need to reaffirm their trustworthiness in the eyes of customers and pay stricter attention to delivering what they promise, day in and day out.

WHAT IS CUSTOMER-CENTRICITY AND WHY SHOULD RETAIL BANKS CARE?

Customer-centricity is a way of banking based on trust and fairness that uses knowledge of customers to meet their needs and achieve sustainable, valuable, long-term relationships.

WHAT DO RETAIL-BANKING CUSTOMERS REALLY WANT?

The Boston Consulting Group surveyed banking customers in a number of markets to explore the factors that go into decisions to leave a bank, to join a new bank, and to buy more products at a given bank.

ARE ANY PATTERNS OF CUSTOMER-CENTRIC BANKING EMERGING?

Many banks' offerings turn out to be predominantly associated with one of three patterns, which we refer to as Retail, Guardian, and Convenience.

RETAIL BANKS TODAY FACE significant challenges to growth and profitability. The erosion of customer trust, the slow economic recovery, and margin pressure stemming from a variety of sources are among the many factors that account for the current difficulties.

In search of growth opportunities in this environment, many banks are focusing on deepening their share of wallet with existing customers. In all regions—the Americas, Europe, and Asia-Pacific—financial institutions have launched marketing campaigns with slogans such as Reinventing Banking, Restoring Trust, and Deepening Customer Relationships. The goal is to make customers feel that their banking needs are being well looked after—to become, in a nutshell, more “customer centric.”

Yet to make those two words more than just a catchy phrase, banks that choose customer-centricity as a strategy must figure out how to transform their vision into actions that deliver on promises. Banks also need to understand the customer-value equation—not overinvesting in customers who are not likely to respond to new initiatives or whose long-term value to the bank is relatively low.

Some key questions present themselves:

- What exactly is customer-centricity and why should retail banks care?
- What do retail-banking customers really want?
- Are any patterns of customer-centric banking emerging?

By exploring these and related questions in detail, banks can gain the understanding they will require to cope both with current challenges and with those that lie ahead.

What Exactly Is Customer-Centricity and Why Should Retail Banks Care?

The old story about a man awakening on a burning oil platform at sea, and having to make a life-or-death decision whether to jump, may seem a bit dramatic for the banking industry. That said, the point of the tale is that extraordinary circumstances force people—and, in our view, companies as well—to take bold steps that are out of their comfort zones. Today, it can be argued that consumer, market, and

Banks that choose customer-centricity as a strategy must figure out how to transform their vision into actions that deliver on promises.

structural industry trends have created a burning platform that is forcing retail banks to “jump” to win back the hearts and minds of their customers.

The circumstances are compelling. The financial crisis has damaged consumer confidence in the banking industry and prompted a shift toward less complex, lower-margin products. Ubiquitous social media enable consumers to express negative opinions about financial institutions more frequently and with greater impact than ever before. The online channel makes it easier for consumers to compare banks and look for better products and services. In addition, low-growth markets are leading to tighter competition as multiple banks vie for the same customer base. Some regulatory measures have brought consumer protection and product transparency to the fore, while others, such as Basel III, have put pressure on margins—making deep client relationships more important for retail banks.

To differentiate themselves and be able to both keep and attract high-value customers in such a climate, retail banks can benefit by placing a laserlike focus on their customers. In our view, *customer-centricity* can be defined as follows:

A way of banking based on trust and fairness that uses knowledge of customers to meet their needs and achieve sustainable, valuable, long-term relationships.

More specifically, our customer-centricity framework is made up of eight dimensions: four on the customer-facing side, and four on the internal side that serve as “enablers.” Let’s look first at the customer-facing side.

Marketing and Communication. Retail banks should foster a dialogue centered on individual customers’ personal financial needs, making explicit commitments—rather than communicate through mass media with high-volume, standardized advertising campaigns. Retail banks should also strive to be perceived as a trusted partner, striking a sustainable balance between shareholder and customer interests, while acting as a responsible corporate citizen—as opposed to placing short-term focus on maximizing shareholder value and profits at the expense of long-term stability.

Sales and Service. Selling efforts should be highly targeted and proactive, based on deep knowledge of the customer’s needs and risk profile, and clear in explaining alternative (and potentially lower-priced) solutions—as opposed to being driven purely by sales volume or profit goals. The channel experience should serve natural customer pathways and make interactions across multiple channels simple—not disjointed or constrained by internal organizational boundaries in a way that leads customers to dead ends. The key is for channels to support, not compete with, each other. As such, not every function for every product in every channel needs to be available 24-7.

Products and Pricing. Value propositions should be tailored to meet customer needs, be clearly explained, and contain easy-to-understand features and alternatives; they should not be complex and difficult to grasp, with all the details coming in the fine print. Pricing structures should be fair, and fees should be transparent

Retail banks should strive to be perceived as a trusted partner, while acting as a responsible corporate citizen.

and based on the value of the relationship—as opposed to being characterized by one-price-fits-all mandates and hidden charges.

The Customer Experience. Knowledge of the customer should be used to define and deliver what is expected, allowing for “overdelivery” (through speed of execution or higher service levels) at key moments. The goal is to transform mere satisfaction into loyalty and advocacy—as opposed to just meeting the expectations of the average customer with a standardized service level.

The following are the four additional, enabling dimensions of customer-centricity on the internal side.

Customer Intelligence and IT Landscape. Retail banks should adopt a disciplined approach to collecting data on customer behavior and sentiment across multiple interactions, then use those data to gain a deep understanding of current and predicted customer needs—as opposed to relying mainly on customer data that is “siloesd” around specific products or channels. Also, the IT and business sides of the bank should collaborate closely to make customer needs a driver of IT design choices, which in turn should enable an easy banking experience for the customer and flexibility for the bank. Above all, banks must harvest customer data carefully, store it safely, keep it current, and share it efficiently to enable the front line to proactively meet customer needs, improve the overall customer experience, and deepen relationships.

Processes. End-to-end processes should be built in response to customer needs, with the most critical processes designed for speed as well as accuracy. Customer input, not cost, should drive process improvement.

Governance. The customer perspective should be a key factor in organization design, both through hardwiring customer satisfaction into incentives and through clear definition of customer segments—as opposed to governance that is centered solely on financial performance and built around single products or channels.

DNA. Thinking and acting in the customer’s best interests should become an integral, pervasive part of the bank’s strategy, culture, and capabilities, supported by strong executive commitment and enabled by training and recruiting—as opposed to having a silo-based organization with fragmented cultures in each product group and channel.

Although the potential value of customer-centric banking can vary depending on local market circumstances, our proprietary research shows that its value is poised to grow globally in the coming years. Moreover, our research revealed a wealth of information regarding what retail-banking customers truly want and why customer-centricity is so important.

What Do Retail-Banking Customers Really Want?

Customer-centricity is best understood by exploring customer motivations at what we call “moments of value.” What are the principal factors that influence people to

The goal is to transform mere satisfaction into loyalty and advocacy.

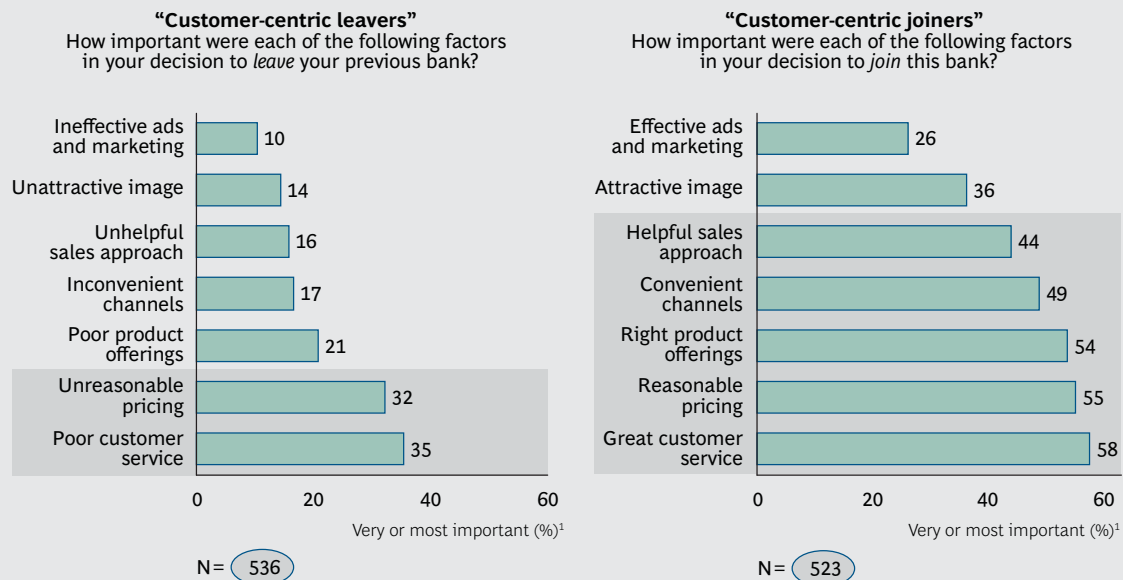
leave their current bank? To join a new bank? To purchase additional products at a bank?

To explore such questions, BCG surveyed banking customers in a number of markets, including Canada. Using the Canadian research to illustrate overall trends, it is clear that customer-centricity plays a major role in the decisions people make regarding their banking relationships.

The Decision to Switch Banks. Roughly 50 percent of our survey participants in Canada said that customer-centric reasons—as defined by the four customer-facing dimensions in our framework—were behind their decision to switch banks. Customer-centric reasons were also more prevalent in this decision than other considerations, such as a bank’s location or the need to switch (to obtain a new mortgage, for example). Moreover, those who switched for customer-centric reasons placed more emphasis on the satisfaction they expected to gain by joining a new bank than on their dissatisfaction with the bank they were leaving. (See Exhibit 1.)

For customers who switched, the anticipation of better overall service—characterized both by “hard” skills such as deep product knowledge and error-free execution, and by “soft” skills such as friendliness and helpfulness—was cited as most important. Also critical was the expectation of fair and transparent pricing that acknowledged the level of business currently brought to the bank, and products and channels that offered effectiveness and simplicity. Further, we found that high-income “joiners” placed significant weight on execution-oriented customer-service skills,

EXHIBIT 1 | Customer-Centric Switchers Attach the Most Importance to Their Reasons to Join a New Bank



Source: BCG customer-centricity survey, conducted in September 2011.

¹Percentage of customers who indicated that the above categories were very or most important in their decision to leave or join a bank.

while joiners in lower income brackets were more interested in softer, relationship-oriented capabilities.

The Decision to Buy More Products. Our research showed that the decision to buy more products at any one bank depended more on pure convenience—often driven by a desire to consolidate business and accounts at one institution—than on customer-centricity per se. Nonetheless, for these “consolidators,” the choice of a given bank was still driven largely by customer-centric reasons. Moreover, for the 21 percent of survey respondents who said that pure customer-centric reasons *did* motivate their decisions to buy more products at any one bank, the most important factors were channel performance (the ease of setting up a new product) and crisp customer service—just “making it happen.”

The Role of Advocacy. According to our survey, customer-centric dimensions are also key to advocacy, with roughly 50 percent of decisions to join (or to avoid) a specific bank influenced by recommendations from family, friends, acquaintances, or online public forums. Those who make recommendations to join a new bank usually cite better customer service, a more efficient channel experience, and more reasonable pricing. A smaller share of survey participants (about 33 percent) were influenced by recommendations in their decisions to buy (or to avoid) a certain product at a given bank.

Potential Differences Among Markets. In our view, the results of our research in a number of markets, including Canada, are largely representative of consumer sentiment about customer-centricity in most markets—with a few potential qualitative differences.

For example, the observation that customer-centricity is more important in decisions to switch banks than in decisions to buy more products at a given bank is expected to hold across most markets. Likewise for the relative importance of various customer-centric dimensions. Customer service and pricing, for example, have greater importance than marketing campaigns or brand image. Indeed, irritation with slapdash service or with pricing that is perceived as nontransparent or unfair is likely to be a prime reason to leave a bank anywhere in the world.

By contrast, the absolute level of importance attached to customer-centricity factors may vary according to how advanced various markets already are in being customer-centric. For example, in a market where soft customer-service capabilities such as friendliness and helpfulness are less developed, poor performance in these areas is less likely to trigger a switching decision than in markets where customers already expect a personal touch.

Overall, we have observed that many banks are attempting to be more customer-centric, although the ways they are approaching the task may vary.

Are Any Patterns of Customer-Centric Banking Emerging?

Three fairly common patterns of customer-centric banking are emerging across regions and across specific banks. These patterns are not rigidly defined or “set in

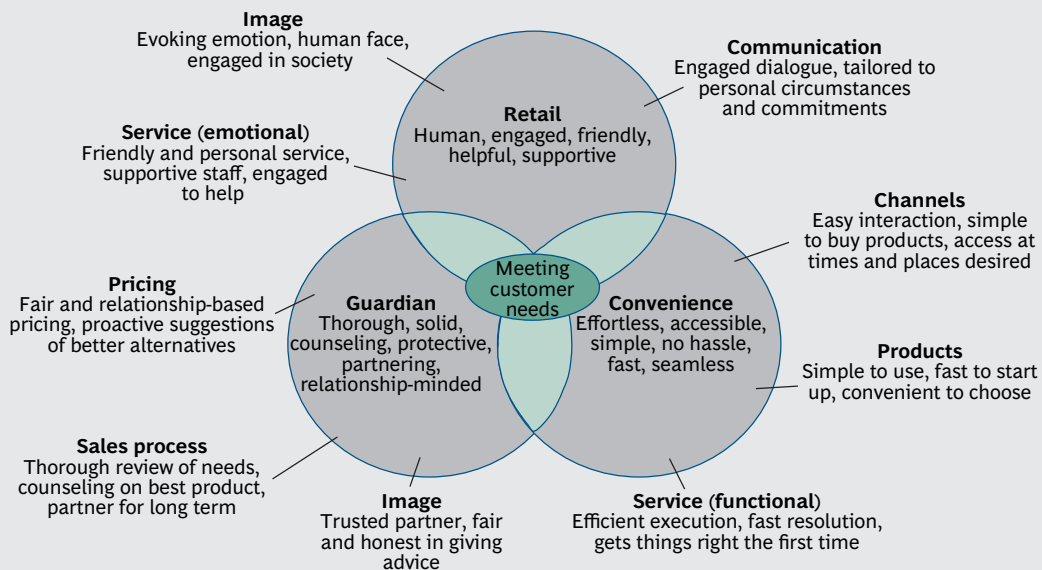
Those who make recommendations to join a new bank usually cite better customer service, a more efficient channel experience, and more reasonable pricing.

stone” by any means. Indeed, some aspects of each can be found in others. The patterns are based on observed commonalities in the value propositions of roughly 20 leading retail banks, but they are not prescriptive, nor do they necessarily represent deliberate choices or strategies. Yet many banks’ offerings turn out to be associated predominantly with one of these patterns, which we refer to as Retail, Guardian, and Convenience. (See Exhibit 2.) Let’s take a brief look at each one.

Retail. Banks that take a retail approach to customer-centricity concentrate on creating a comfortable and enjoyable banking experience. Marketing efforts focus on the emotional benefits of joining and on the way the bank delivers highly personalized, friendly service. “We’re just like you and we’re here to help” might be an appropriate marketing slogan. The bank strives to be perceived as rooted in the local community, a positive contributor to society, and able to help customers find the financial products and services that they need in a very supportive way. Strong governance and meticulous tracking of customer satisfaction are critical to success with this approach.

Guardian. Banks that take a guardian approach focus on building deep relationships by concentrating on clients’ long-term financial needs and aspirations. These banks strive to be known for putting the customer first through honest advice, full transparency on all charges and fees, and an ability to offer the most suitable products for different life stages—while actively advising against unsuitable products even if the bank might benefit from selling them. These banks also embrace pricing linked to the customer’s loyalty and long-term value. To succeed with this approach,

EXHIBIT 2 | Three Patterns of Customer-Centric Banking Are Emerging



The patterns are *observed* consistencies in the approach of customer-centric banks and are not necessarily prescriptive

Source: BCG analysis.

banks need both hard and soft enablers—such as strong IT and data capture that offer a holistic view of each client, and a strong “customer DNA” culture.

Convenience. Banks that take a convenience approach to customer-centricity focus on providing an accessible, easy, and fast experience. All channels—branch, call center, online, mobile, and ATM—foster natural pathways for customers to carry out research, choose products, make inquiries, and resolve problems. Products are easy to understand, select, and use. The hallmark of these banks is rapid, efficient, and error-free execution. To succeed with this approach, banks need very strong IT and operations functions that provide an aggregated, consistent overview of customer information. They also need an integrated and flexible systems landscape, as well as strong end-to-end processes.

These three patterns can serve as reference points in helping banks ensure a consistent customer-centric proposition. According to our research, banking customers in Canada found certain elements of all three patterns important. Moreover, priorities clearly vary by client segment. For example, high-income individuals valued the convenience of being able to conduct business through the channel of their choice at any time, while customers nearing retirement were more likely to favor the attributes of the guardian approach.

What is more, the three patterns are not mutually exclusive. Banks may combine them depending on resources, capabilities, and local banking landscapes. However, it is better to be strong in one pattern than mediocre in two. Some leading banks today provide examples that others can learn from.

Inspiring Journeys Toward Customer-Centricity

A number of banks have made large strides toward becoming more customer centric, with tangible results to show for their efforts. Let’s explore the steps that three of them have taken.

COMMONWEALTH BANK

In 2005, Commonwealth Bank of Australia (CBA) launched a program aimed at improving customer satisfaction along three core themes: *excellent customer service* through *engaged people* supported by *simple and easy products and processes*.

The first phase, which took place from 2005 to 2009, focused on improving the sales and service experience across all channels. The bank undertook an extensive upgrade of its sales, service, and online platform, which provides customers and staff with an aggregated view of all customer information and fulfills customer requests from one place. Concurrently, CBA launched training programs to focus all staff on improved customer service, optimized end-to-end processes, and accelerated turnaround times. It instituted a leadership initiative to spur cultural change and make customer satisfaction a key part of staff KPIs and incentives.

After realizing both front- and back-office gains from these efforts, CBA shifted its focus to replacing its legacy core-banking platforms. Through an initiative called Core Banking Modernisation, CBA undertook a multiyear program to replace its

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core product engine. This effort provided straight-through and real-time processing of all transactions, service requests, and applications. Account-opening and fulfillment times were dramatically reduced, with deposit accounts opened immediately and most mortgage top-ups funded within 30 minutes. The bank started taking the full customer relationship into account for credit decisions, collection management, transaction approvals, fee waivers, and loyalty incentives. Product-manufacturing and testing time was shortened.

The overall effect of these initiatives has been a clear improvement in the way CBA is perceived by customers, with its branch service levels now best-in-market among the large banks. Front-line employees are widely seen as highly engaged and attentive to the customer experience. Faster service and fewer execution errors have built loyalty. CBA has improved both its financial and its satisfaction metrics, with cost-to-income ratio falling from 57 percent to 45.8 percent from 2002 through 2011. Cost-to-income ratio in the retail bank alone is currently 38.3 percent. Also, products per customer have increased from 2.17 to a peer-leading 2.74 (2006–2011), and overall customer satisfaction has increased from 59 percent to 78.9 percent (2002–2011).

TD CANADA TRUST

In the 1950s, Toronto-Dominion Bank was a customer-oriented institution. Its slogan was The Bank Where People Make the Difference. But by 2000, the bank had become more bureaucratic and was steering customers toward direct channels. Realizing the need both to connect more deeply with customers and to build a new type of loyalty, the bank acquired Canada Trust—considered the most customer-oriented financial institution in Canada. The combined new entity, TD Canada Trust, set out to follow the business model that had made Canada Trust so successful—one that featured longer opening hours at branches, a sophisticated satisfaction-measurement system, and a pervasive customer-centric culture.

The linchpin of TD Canada Trust's strategy is its branches, where average opening hours now surpass those of the nearest competitor by 54 percent. Branch design is open and airy, with relatively few private offices, the aim being to facilitate customer interaction with staff. Comfortable chairs, children's areas, and refreshment stations are standard.

But the bank's approach goes beyond branch accessibility and attractiveness. Our research showed that TD Canada Trust also outscores peers on channel experience, online banking, call-center effectiveness, and mobile banking. Overall, the institution has been the top-ranked Canadian bank in terms of customer satisfaction for the past six years, and its scores have steadily improved.

Finally, improving the customer experience has also helped the bank's bottom line. Revenue has grown strongly in recent years, and cost-to-income ratio has declined. Overall, TD Canada Trust has embraced elements of both the retail and the convenience patterns of customer-centricity, and has used this approach successfully.

ABN AMRO

In the Netherlands, ABN AMRO has taken several large steps toward customer-centricity. First, it has pursued and achieved market leadership in the mobile-banking

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arena. Indeed, ABN AMRO's mobile-banking offering has been guided by four customer-centric pillars: *proactivity* through providing notifications that are relevant to individual customers in real time; *simplicity* by enabling basic banking functionality as well as novelty applications 24-7; *engagement* through collaborating with customers on which mobile applications are most critical; and *seamlessness* by providing an easy connection to a relationship manager who has the customer's account and balance data available at a touch. ABN AMRO currently has the highest-rated mobile app among its peer banks, and the number of customer balance checks per month on mobile phones is steadily increasing.

Second, ABN AMRO has initiated a program to simplify its product portfolio in order both to help customers choose among products more easily and to help staff advise customers. For example, the bank now offers just 3 types of savings products, as opposed to 21 previously. Similar moves toward less complexity have been made in other product areas, such as current accounts and securities. Overall, products are now more clearly distinguished, with little overlap, and differences between products are easier to understand.

Third, ABN AMRO has made a strong commitment to make all communications, both external and internal, clearer and easier to understand. In a speech, the bank's CEO, Gerrit Zalm, said, "The language used should be simpler, such that 90 percent of the population understands it." According to Zalm, the language initiative applies not just to written product brochures, Web pages, and the like, but also to spoken language when staff members advise customers. The overall goal is transparency, clarity, easy interactions, no misunderstandings, and ultimately better service and higher levels of customer satisfaction.

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Taking Action: Embarking on Customer-Centricity

A true journey toward customer-centricity takes drive, commitment from the top, and staying power. Before any bank takes the first step, it should decide exactly how important this specific journey is to overall strategy and draw up potential goals. The bank should also consider whether it has the necessary resources to sustain such an initiative over a period of years.

Indeed, if the decision is to go forward, the bank should ask itself some basic questions, such as:

- What are our current strengths on the four customer-facing dimensions of customer-centricity?
- What are our current capabilities on the four internal "enabling" dimensions, and how can we best leverage them?
- Which aspects of customer-centricity are most important to people in our local market and to our specific client base within that market?
- Where do we stand on customer-centricity compared with our closest competitors, and how could we differentiate ourselves?

We have observed that a three-phased approach can be highly effective in kicking off the project.

First, the bank needs to get the lay of the land, establishing clarity on the starting position and the long-term opportunity by thoroughly exploring the above four questions. Second, the institution must set the destination—clearly defining ambitions and goals on each of the eight customer-centric dimensions. Finally, the bank must chart a clear course for the journey that includes checkpoints and interim goals along the way. Strong momentum should be captured at the outset.

Many retail banks have already learned that adopting a customer-centric approach can significantly enhance their ability to differentiate themselves, improve retention, and raise long-term revenues. Given the tall hurdles facing retail banks today, those institutions that do not explore ways to become more customer centric may find themselves losing ground to more proactive competitors as the race for market share heats up.

About the Authors

Andy Maguire is a senior partner and managing director in the London office of The Boston Consulting Group and the leader of the global retail-banking segment. You may contact him by e-mail at maguire.andy@bcg.com.

Nan DasGupta is a partner and managing director in BCG's Toronto office. You may contact her by e-mail at dasgupta.nan@bcg.com.

Richard Helm is a partner and managing director in the firm's Sydney office. You may contact him by e-mail at helm.richard@bcg.com.

Ian Wachters is a partner and managing director in the firm's Amsterdam office. You may contact him by e-mail at wachters.ian@bcg.com.

Ian Walsh is a partner and managing director in BCG's London office. You may contact him by e-mail at walsh.ian@bcg.com.

Nicole Mönter is a project leader in the firm's Brussels office. You may contact her by e-mail at monter.nicole@bcg.com.

Acknowledgments

The authors would like to thank the following people within BCG for their contributions to the development of this report: Ashwin Adarkar, Lionel Aré, Brent Beardsley, Kilian Berz, Jeanne Bickford, Thorsten Brackert, Vincent Chin, Allard Creyghton, Jean-Werner de T'Serclaes, Laurent Desmangles, John Garabedian, Gerold Grasshoff, Brad Henderson, Huib Kurstjens, Reinhard Messenböck, Stefan Mohr, Tim Monger, Toby Owens, Sukand Ramachandran, Monica Regazzi, Axel Reinaud, Beatriz Reyero, Jimmy Royston, Carl Rutstein, Olivier Sampieri, Robert Sims, Pedro Soria, Steve Thogmartin, Pablo Tramazaygues, Martin van den Heuvel, Michiel van Schravendijk, and Rahul Wadhawan.

Special thanks also go to Philip Crawford for his editorial direction, as well as to other members of the editorial and production team, including Gary Callahan, Angela DiBattista, and Sharon Slodki.

For Further Contact

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