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Operational Excellence in Retail Banking

Raising Performance in Turbulent Times

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AT A GLANCE

True operational excellence is a key factor in separating the winners from the rest of the pack in retail banking, with best-practice institutions likely able to achieve and sustain a return on equity (ROE) higher than 20 percent. Such banks are also positioned to continuously surmount cost pressures and improve their overall performance, despite uncertain market conditions.

Survey Results: The Gaps Between Top and Bottom Performers Have Grown Wider

The Boston Consulting Group's second annual Retail-Banking Process and Productivity Benchmarking survey covered 15 of the top 35 retail banks across the Americas, Europe, and Asia-Pacific. The goal of the global survey was to explore operational excellence in depth, taking an end-to-end perspective. The survey revealed a better median level of performance in 2011 than in 2010 across key metrics. But the gaps between top and bottom performers are widening significantly in some areas.

Banks Should Focus on Four Domains of Operational Excellence

Four key domains of operational excellence—client excellence, efficient and effective processes, a streamlined organization, and strong underlying capabilities—are critical to success in today's retail-banking environment.

THE RETAIL-BANKING INDUSTRY IS facing significant change on many fronts. The continued tightening of regulation has brought measures aimed at better consumer protection and more rigorous capital and liquidity management, raising new hurdles for banks; customer expectations are higher than ever; and ongoing technological innovation is creating its own challenges and opportunities.

Such changes have not only shifted the competitive positions of many institutions but also contributed to a level of cost pressure that retail banks have rarely felt before. The majority of banks struggle to achieve a return on equity (ROE) that exceeds the roughly 12 percent cost of equity for the sector. This reality, in turn, increases the importance of achieving *operational excellence.* True operational excellence enables retail banks to expand margins both by reducing costs and by raising revenues through improving sales effectiveness and the customer experience (in terms of speed and overall quality).

In this report on BCG's second annual study of operational excellence in global retail banking—our Retail-Banking Process and Productivity Benchmarking (RBPPB) survey—we will address the following questions:

- Which key trends can be observed?
- What are the critical domains of operational excellence, and how well are banks performing in them?
- How should retail banks' senior-management teams, particularly chief operating officers (COOs), prepare for the future?

Best-practice institutions can achieve and sustain an ROE higher than 20 percent.

A high level of operational excellence is a critical element of success in retail banking today, with best-practice institutions likely able to achieve and sustain an ROE higher than 20 percent. Such banks are positioned to continuously overcome cost pressures and improve their overall performance, despite volatile market conditions.

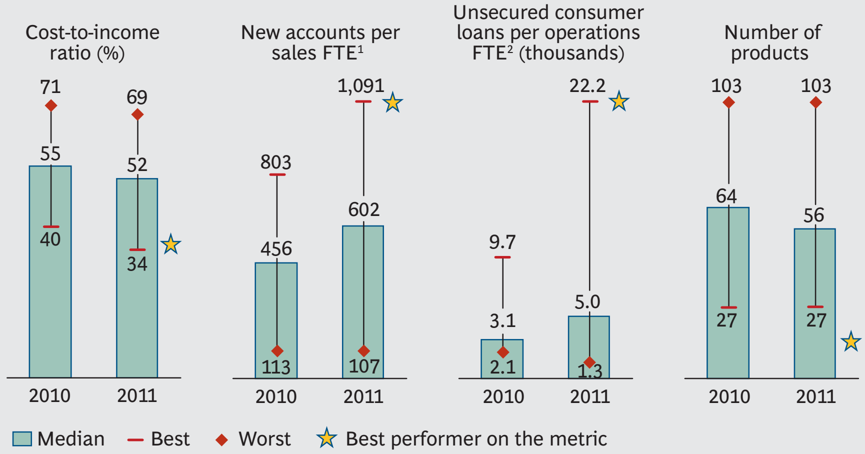
The Key Trend: The Gaps Between Top and Bottom Performers Have Widened

The goal of BCG's second annual RBPPB survey was to explore operational excellence in depth, taking an end-to-end perspective. Our most recent survey, conducted in 2011, covered 15 of the top 35 retail banks across the Americas, Europe, and

Asia-Pacific—a group we refer to as the “premier league” of retail banks. The institutions we surveyed account for roughly 420 million customers, 46,000 branches, and $12.5 trillion in assets.

Our survey revealed a better median level of performance across key metrics in 2011 than in 2010 but, most notably, significantly widening gaps between top and bottom performers in some areas. (See Exhibit 1.)

Exhibit 1 | Key Operational-Excellence Metrics Show Wider Gaps Between Top and Bottom Performers in Some Areas



Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2010 and 2011.
[1]Branch advisors and non-branch-based sales FTEs.
[2]Operations FTEs do not include corporate functions, such as risk, finance, HR, and IT.

Specifically, we observed the following dynamics:

- *Improvement in Cost-to-Income Ratio.* Despite adverse market conditions, the long-term efforts of many banks to improve their cost positions have brought positive results. All markets, however, except those in Asia-Pacific, have felt a negative impact from consumer deleveraging and poorer economic conditions.

- *Stronger Sales Productivity.* More banks are moving toward best-practice levels, and average performance continues to improve. The current top benchmark level is close to 1,100 new accounts per sales full-time equivalent (with a median of about 600 new accounts); this represents a clear increase over the 2010 level.

- *Increased Back-Office Efficiency.* We have witnessed higher throughput per operations FTE, which has been especially evident in consumer loans, among other products.

- *Proactive Management of Complexity.* Some leading banks have put processes and governance in place to reduce business complexity, streamline their product portfolio, and isolate complexity in operations by routing simpler tasks to less skilled workers.

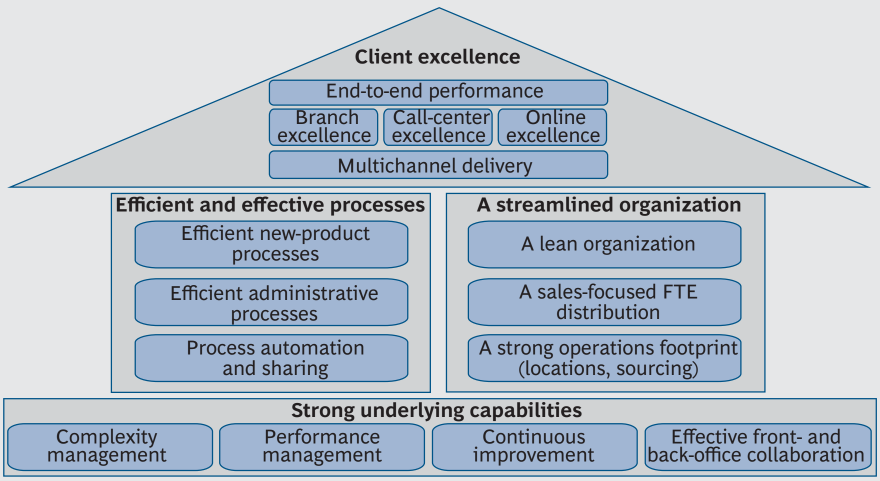
Overall, it is clear that some banks have placed operational excellence high on the CEO agenda—continuing to invest intelligently in opportunities that drive short- and long-term improvement—but others have not felt the same degree of urgency.

Four Critical Domains of Operational Excellence: What Are They, and How Well Are Banks Performing in Them?

Excelling in four domains of operational excellence is critical for retail banks if they hope to raise their overall performance level in these turbulent times (see Exhibit 2):

- *Client Excellence:* Succeeding in "moments of truth" for the customer, providing effective sales and service across channels, contacting and assisting customers proactively, and delivering "easy-to-buy, easy-to-sell, easy-to-service" products whose key features are instantly functional.
- *Efficient and Effective Processes:* Designing processes that are simple, fast, and, ideally, paper free—and getting things right the first time so that customers do not experience delays or errors; when fulfillment cannot be provided at the point of sale, have the ability to hand off the task to operations through data or images, then route it to the right individual for completion.
- *A Streamlined Organization:* Achieving a lean organization with a clear sales-and-service focus, as few layers as possible between the front line and executives, high single-point accountability, and minimal bureaucracy.
- *Strong Underlying Capabilities:* Establishing robust enabling capabilities that allow the bank to continuously improve its end-to-end operating model and cost performance through complexity reduction, rigorous management of performance, linkages to incentives, and other initiatives.

Exhibit 2 | Four Domains Are Critical to Achieving Operational Excellence in Retail Banking



Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2011.

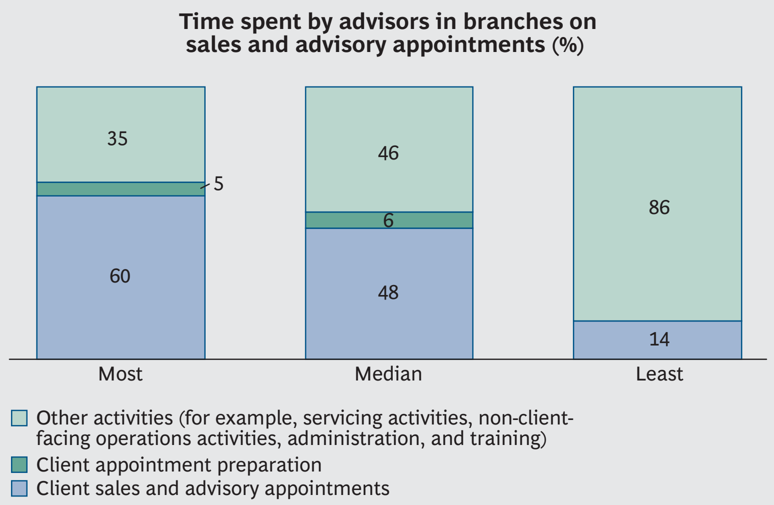
Below, we will explore each of these domains in greater detail and assess how leading banks are currently performing in each of them.

Client Excellence

Client excellence, also known as customer-centricity, is critical to winning in today's retail-banking environment. It is about differentiating the customer experience by delivering what each client needs at just the right moment and consistently achieving a promised service level. The key elements of client excellence that we analyzed in our benchmarking survey were branch excellence, call-center excellence, multichannel delivery, and end-to-end performance (cycle times).

Branch Excellence. The productivity of the front line in branches—where more than 80 percent of bank accounts and consumer loan products are sold, on average—is essential to the overall performance of the bank. Our survey revealed that at most banks, advisors still spend less than 50 percent of their time in sales and advisory appointments, with those at best-in-class institutions achieving up to 60 percent—a level still well below what is potentially attainable. (See Exhibit 3.)

Exhibit 3 | At Most Banks, Advisors Spend Less Than 50 Percent of Their Time in Sales and Advisory Appointments



Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2011.

Moreover, sales success is not driven purely by client "face time"; it also depends on how this time is originated and leveraged. In best-practice banks, a virtuous cycle exists. Effective central analytics and marketing drive customer contact opportunities (sales leads and service opportunities), thereby creating appointments, high show rates, conversions, additional sales, and, ultimately, loyal primary-customer relationships. In these banks, sales processes are crisp, clear, and based on customer needs, leading to full calendars and well-structured conversations. The branch network is smartly designed, with the right format for each location and hours of operation that are client centric. Interiors are bright and welcoming, and greeters are friendly and attentive.

Call-Center Excellence. The convenience and service level of the call center are key factors in customer perception. Best-in-class call centers have achieved a call-wait time of 0.3 minutes, a call-handling time of 1.7 minutes, and a first-call resolution rate of 97 percent—compared with medians of 0.9 minutes, 5.0 minutes, and 80 percent, respectively. Although many institutions focus their inbound-call centers on efficient client service, some excel at converting these service requests into sales. For example, most banks convert only 1 to 5 percent of inbound calls into a product sale. But some have posted outstanding performances, with more than 10 percent (up to 17 percent, in fact) of calls converted into sales. Such performers have achieved these results through focused service-to-sales programs that prompt staff to make scripted offers that are smartly targeted to the customer.

Multichannel Delivery. Crisp sales-and-service delivery across multiple channels is also a top priority for customer-centric banks. One goal is to optimize the cost of serving customers by reserving the branch network and the time of its staff for activities that create the most value: advising clients on complex products and converting these conversations into sales. Best-practice banks are making deliberate choices about the target channel for each interaction and are actively migrating certain activities to the most appropriate channel. Although most institutions do not force customers to specific service points, some still insist that customers come to the branch for matters that peer banks prefer to migrate online—such as changing personal details like the client's home address.

The best players focus on providing a "walk out working" experience, with a wide variety of features fully operational as the customer leaves the bank.

Of course, it is no surprise that more transactions and interactions are moving online. Yet leverage of the online channel for sales depends greatly on the product. For banks that are highly evolved online, approximately 50 percent of new accounts and unsecured consumer loans are sold through this channel. In addition, use of the mobile channel is still in its infancy; 2010 was the first year in which some banks conducted a nonnegligible number of transactions this way. Many banks are also finding that increased channel offerings have caused a net increase in the absolute number of transactions, without materially reducing the number of branch or telephone transactions.

End-to-End Performance. Services that are "one and done," new products that function immediately, and quick cycle times are credible proof that a bank is customer centric. Our survey revealed stark differences among banks. (See Exhibit 4.) For example, cycle times for opening new accounts varied from 5 minutes to 76 minutes. The best players focus on providing a "walk out working" experience, with a wide variety of features fully operational as the customer leaves the bank (such as a debit card in hand or requested funds fully available). One institution has integrated the sale of a consumer line of credit into the account-opening process with just an additional two minutes required.

Moreover, achieving strong end-to-end performance is not limited to simple products. Even for complex offerings such as mortgages, there are best-in-class performers that make decisions and provide credit much faster than competitors. The top performer in our survey conditionally approved conventional mortgages at the point of sale within 15 minutes of the time the application was submitted, compared with a median of four hours. Several banks were still not able to provide

EXHIBIT 4 | Cycle-Time Performance Varies Widely Among Banks

Current and transaction accounts

Bank	Cycle time for existing customer of bank (minutes): Application process	Account ready to use	Total	Features available as customer leaves bank: Deposits and withdrawals	Online-banking functionality	Telephone-banking functionality	Check account balance	(Temporary) debit card provided
A	5			✓	✓	✓	✓	✓
B	17		17	✓	✓	✓	✓	✓
C	20	20	40	✓	✓	✓	✓	✓
D	30	30	60	✓	✓	✓	✗	✓
E	20	40	60	✓	✓	✓	✓	✗
F	31	31	62	✓	✓	✓	✓	✗
G	30	40	70	✓	✗	✓	✓	✗
H	38	38	76	✓	✓	✓	✓	✗

Application process
Account ready to use

Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2011.
Note: This exhibit shows cycle-time performance for select retail banks that participated in this question.

same-day conditional approval. The median time from approval to disbursement was 14 days, with times ranging from about 2 days for the best performers to almost 37 days.

For the best end-to-end performers, customer and account information is readily visible in sales and servicing systems, real-time updates happen without delays or the necessity for end-of-day processing, and vital customer data are easily accessed—at the "customer touch point." Moreover, the bank can rapidly check customer eligibility for preapproved credit and make immediate loan decisions enabled by robust risk-based scoring models.

Efficient and Effective Processes

Efficient and effective processes have a critical enabling role in both cost-efficiency and the client experience and are thus an integral part of operational excellence. Our benchmarking revealed a substantial range in performance both for new-product openings and for postsales administration. The leading bank in our survey opened about 90,000 new current and savings accounts per operations FTE—three times more than the second-place bank and eight times more than the median in our sample—largely on the strength of highly optimized processes and IT support. In account administration (across all products), this bank handled roughly 18,000 products per operations FTE—twice the level of the median. Clearly, the trend toward straight-through processing is continuing, with about 70 percent of our survey participants investing strongly in it. Many institutions are building business cases for automation on the quality of the customer experience, as well as on the typical cost-based drivers.

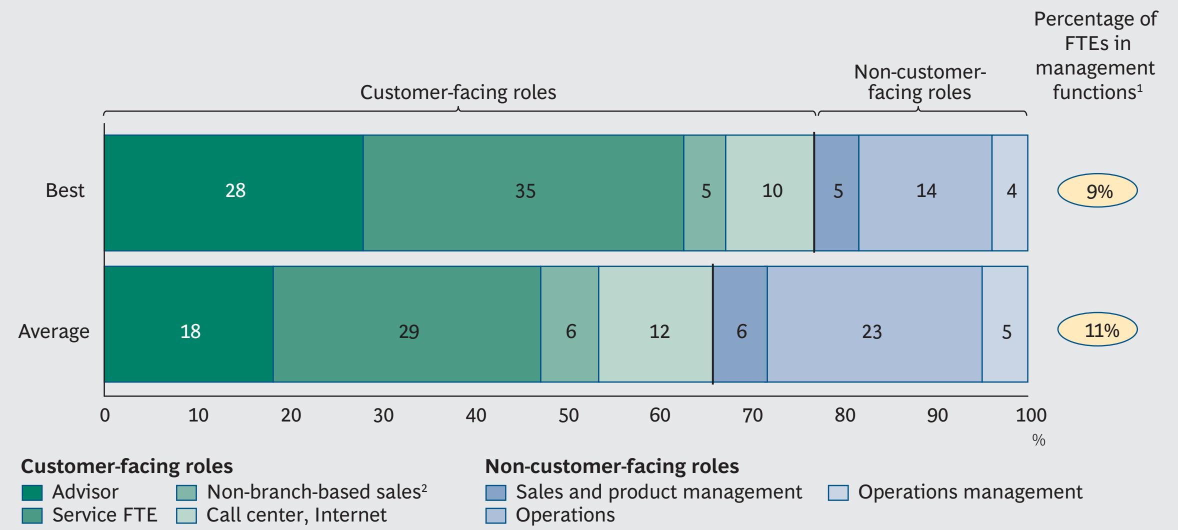
Through both our client work and benchmarking, we have observed that best-practice banks have sales-focused processes—typically designed front-to-back—and systems bolstered by strong IT support for front-office staff. These institutions leverage easy-to-use workflow-based systems and increase their capacity for straight-through processing by means of comprehensive and high-quality information capture. They favor continuous improvement over large, disruptive one-time programs, and they manage staff performance rigorously, tying compensation to performance even in operations environments.

Overall, best-practice banks have processes that are designed and assessed for speed and simplicity. Cycle-time standards take a customer-service perspective, avoiding situations in which internal units all meet their targets while the customer experiences delays. Errors and exceptions are identified, measured, and reduced over time. Back-office operating models balance scale benefits and the cost of complexity, differentiating between simple mass processes and complex tasks. Such banks use standardized processes across all locations, products, channels, and client segments to the greatest extent possible, and they achieve the right balance of centralization and localization.

A Streamlined Organization

The winning banks in our survey have a lean, sales-and-service-focused organization characterized by a high number of customers per FTE. In 2011, the best-practice bank had roughly 1,600 customers per FTE, with a median value of 560 (including external and outsourced FTEs). Our benchmarking also showed that top banks had nearly 80 percent of their FTEs in sales-and-service (customer-facing) roles, compared with an average level of about 65 percent. (See Exhibit 5.)

Exhibit 5 | At Winning Banks, Nearly 80 Percent of FTEs Have Customer-Facing Roles



Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2011.
Note: Full-time equivalents do not include corporate functions, such as risk, finance, HR, and IT. "Best" is defined as the highest level of performance on each standalone activity. Because of rounding, percentages do not total 100.
[1]Sales and channel management, product management, and operations management.
[2]For example, mobile ("hunter") sales agents, third-party sales, and a mobile sales force.

Overall, we observed that three key levers are critical to achieving a truly streamlined organization: a lean structure, a sales-focused culture, and a strong operations footprint.

A Lean Structure. Banks with a truly lean structure have managers with high spans of control and organizations with few layers—in both the branch network and the back office. In branches, for example, spans of control are typically 10 to 14 direct reports, although the exact range can depend on a number of factors such as the extent of support by central-management functions and variation in branch sizes. In the back office, spans of control are typically higher—15 to 20 on the team level and 8 to 12 at senior levels. These are best-practice spans for general processing activities; spans are often lower for specialized activities and higher for more routine processing and call centers. In addition, management functions (such as sales controlling, product management, channel management, and operations management) need to be lean and focused strictly on activities that provide actual value. In our survey, the average share of FTEs in management functions was 11 percent, whereas the best performer had only slightly more than 6 percent.

Leading banks use industrialization and automation to reduce staff in non-customer-facing activities.

A Sales-Focused Culture. Leading banks use industrialization and automation to reduce staff in non-customer-facing activities. Indeed, staff in high-performing branches spend as little time as possible on activities such as filling out paper forms, redundant sales tracking, and other manual reporting. Leading institutions also work to maximize the sales and advisory time of their customer-facing staff, including call-center personnel. This initiative can be aided by pushing some service interactions to direct or self-service channels (such as ATMs), monitoring the degree of operational changes to avoid excessive distractions, and leveraging automation (such as easy-to-use sales-and-service platforms that accelerate customer-data capture).

A Strong Operations Footprint. In general, all leading banks have long since shifted certain operations activities from branches to centralized processing centers in order to leverage scale advantages. However, we have observed different approaches supporting this centralization trend. While the majority of our benchmarking participants use 7 to 14 processing centers and handle an average of 2 million to 4.5 million accounts per center, one bank has only one processing center, at which 1,000 FTEs administer more than 8 million accounts. Another institution is evolving away from operations based on large centers and instead enabling virtual routing to the best available resource, including into home offices.

Strong Underlying Capabilities

To improve operational excellence every year, banks need the underlying capabilities that enable them to progress. These capabilities include complexity management, performance management, continuous process improvement, and effective collaboration between the front and back offices.

Complexity Management. An excessively complex business model and operating model can seriously inhibit efficiency and hurt an otherwise winning value proposition. Our study revealed that about 20 percent of banks have slimmed down their product portfolios over the past two years and that 35 percent intend to continue doing so over the next two years. For most institutions, process complexity is a direct offshoot of product complexity.

The keys to managing product (and therefore process) proliferation are to actively and continuously target product reduction, to create a robust fact base to support decision making, and to ensure that IT and operations functions are involved when new or modified products are being discussed or introduced. For instance, IT and operations involvement is already in place at 18 percent of the banks we surveyed. Moreover, 55 percent of banks already have a process to continuously monitor and reduce complexity—for example, by eliminating low-volume, low-revenue products or by adopting similar (if not identical) processes for product and channel variants.

Among our survey participants, we identified three highly relevant approaches to managing complexity:

- *"Spoil" Dates for Products.* Campaign products, or those with special promotional characteristics, are allowed special status for a defined period of time (such as six months), then transformed into standard products (with associated processes). The key benefit is that one-time, manual work-arounds are eliminated.

- *A Single Source of "Customer Truth."* Legacy systems and processes can lead to storage and management of customer data in different places. Some banks in our survey have introduced a single source of customer truth—a method of gathering, storing, and accessing customer information in a way that simplifies overall processes and IT systems and provides better-quality data for customer analytics.

- *Regular Process Reviews.* Several banks in our study apply a prioritized approach to reviewing and optimizing processes—thereby reducing errors, exceptions, and handoffs, among other inefficiencies.

Performance Management. Systematic performance management for bank staff, especially in operations, is a somewhat underexploited lever, utilized by just 33 percent of our survey participants. Targeted incentives for productivity increases are in place in just 26 percent of banks. The most advanced institutions actively manage performance with a cascading dashboard that provides executive visibility and drives down key metrics into teams and even to individuals. Obviously, any performance-management system must be sufficiently sophisticated to cope with the realities of a multichannel, multisegment, fast-paced environment. Otherwise, unintended effects may actually destroy value.

Systematic performance management for bank staff, especially in operations, is a somewhat underexploited lever.

Continuous Process Improvement. Continuous improvement programs for most processes are in place at fewer than half of the banks we surveyed, with several instead using periodic cost-reduction initiatives to drive change. But those that have seized the opportunity have been creative. One bank replaced paper bank statements and other form letters with digital communication, thereby eliminating 9 million surface mailings sent out in one year and generating considerable cost savings.

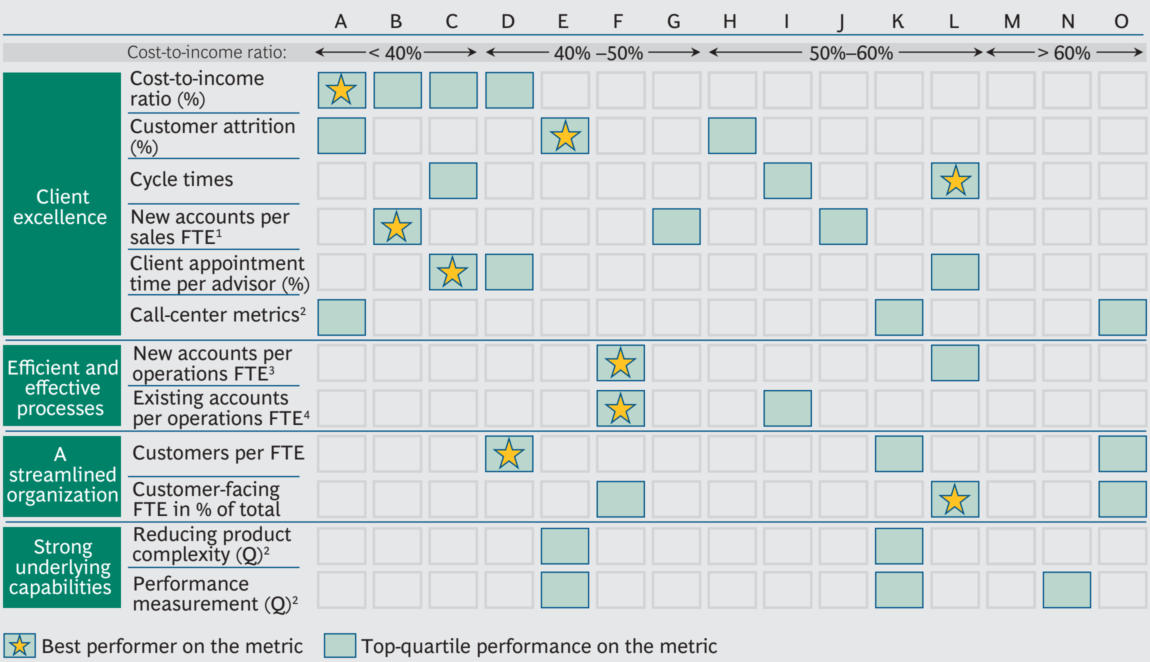
Effective Collaboration Between the Front Office and the Back Office. The engagement model between the front and the back offices—examples include the product silo model, the front-office-driven model, the strategic-partnership model, and the back-office-driven model—strongly influences the ability to reduce complexity and cost. Of the banks in our survey, 83 percent have entered a partnership model in which operations and IT have "a seat at the table," taking part in decisions about new products, processes, and operating-model designs.

How Should Retail Banks' Senior-Management Teams and COOs Prepare for the Future?

Achieving true operational excellence in the future will require banks to make choices such as cost cutting versus new investment, adding new elements (and complexity) to the product and channel portfolio versus standardization, and balancing fixed costs (IT) versus variable costs (personnel).

The need for tradeoffs is clear from our survey, which showed that the specific strengths and weaknesses of banks are quite distinct. (See Exhibit 6.)

EXHIBIT 6 | Most Banks Have Their Own Distinct Strengths and Weaknesses



Source: BCG Retail-Banking Process and Productivity Benchmarking survey, 2011.
Note: Q denotes that data were obtained from qualitative interviews.
[1]Branch advisors and non-branch-based sales FTEs.
[2]Unable to distinguish the best performer.
[3]Account-opening and decision-making FTEs.
[4]FTEs in postsale account administration.

Yet retail banks' senior-management teams, particularly COOs, need a framework to pursue operational excellence. In our view, they should proceed through three core steps.

Build a foundation for monitoring and steering operational excellence. This includes the following imperatives:

- Clearly define operational-excellence KPIs and objectives that are explicitly tied to the overall retail-banking strategy.
- Review processes regularly from an end-to-end perspective, and embed a culture of continuously improving those processes every year.
- Reduce complexity systematically—in products, processes, data, IT, organization, and other areas.
- Establish clear internal and external service standards, and measure performance regularly. Link performance to meaningful incentive schemes and foster a culture of accountability.

Establish a dialogue with business units on operational excellence:

- Jointly assess the starting situation and establish priorities.
- Collaborate to define objectives—such as focusing on cost-to-income ratio or on the number of products held per client—and ambition levels. These can vary widely.
- Ensure that operations and IT are actively involved in innovation and product development.
- Ensure that the dialogue is a true collaboration at peer level, with operations taking the role of a strategic partner—not a service provider—and mandated to challenge business guidelines from an efficiency perspective.

Select priorities for improvement in operational excellence in order to maximize return on investment:

- Agree on the bank's value proposition and differentiating capabilities.
- Prioritize areas that support them—such as the customer experience, branch excellence, multichannel integration, and sales focus.

Ultimately, there is no silver bullet for achieving operational excellence. Banks must forge a path on the basis of their own market conditions, client positioning, and ambitions. One thing is certain, however: in today's turbulent retail-banking climate, achieving operational excellence is more important than ever before. Banks that take a wait-and-see attitude instead of aggressively pursuing improvement in this arena may find themselves playing catch-up to competitors—and sooner rather than later.

Ultimately, there is no silver bullet for achieving operational excellence.

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