Building the Perfect Retail Bank 2020
——Humanity, Technology, Transformation, Profitability

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Executive Summary

In 2020, revenue from retail banking will account for over 40 percent of all revenue for the entire Chinese banking sector. At the same time, retail banking plays an important role in providing a source of stable, low-cost funding and diversifying and balancing the portfolio against more volatile wholesale banking business with corporates and other financial institutions.

The Chinese retail banking sector, however, now faces a rapidly changing environment which has become the “new normal”: Stagnating growth throughout the industry, stubbornly low returns on assets, challenges brought about by new regulations, and significant changes in customer behavior and expectations compel a shift toward multichannel or even omni-channel banking. Financial products are no longer merely products but solutions, data has become the most important strategic resource, and regulatory oversight is encouraging innovations in individual finance, while non-traditional competition is reshaping the industry.

To better cope with this “new normal” and build lasting competitive advantage, retail banks must establish a differentiated business model and develop key capabilities.

Five possible models for differentiation are taking shape in the retail banking sector. These models include the customer-centric institution, the channel innovator, the product specialist, the universal bank, and the ecosystem integrator. They differ from each other in the emphasis that each places on the customer experience, delivery, and operations. Different banks must make clear strategic choices based on their own strengths and weaknesses.

Whatever their chosen model, banks need to commit to building seven key capabilities which will lay the foundation for establishing a lasting competitive advantage. These capabilities include:

- Proactive customer acquisition and lean customer management
- Effective channel coverage and a positive channel experience
- Products and services that directly address a pain point
- Efficient operations, big data capabilities, and an IT platform
- Pricing and prudent risk management
- Flexible organizational and management systems
- Cross-sector ecosystem integration
1. Recognizing the Strategic Importance of Retail Banking

China’s banking industry, which enjoys advantages such as access to 1.3 billion customers, custody of 50 percent of the nation’s savings, and status as a licensed monopoly, is discovering that the traditional rules for business, management, and competition by which it has always played are no longer suitable for today’s rapidly changing marketplace.

First, the macroeconomic picture in China has changed. The economy has shifted gears, structural adjustments are inflicting short-term pain, and the full effects of the economic stimulus enacted after the global financial crisis are still being absorbed. Second, as the financial markets undergo changes such as financial disintermediation and the rise of full-spectrum asset management, new regulatory policies regarding interest rate liberalization and RMB convertibility are not far off. Third, there will be a quick influx of online and offline cross-sector competitors from arenas such as Internet finance and Online to Offline (O2O) payments, making quick inroads into retail banking’s traditional strongholds.

Amid these ongoing changes and pressures, retail banking, whose deposits serve as a stable and low-cost source of capital, plays a more important role than ever as a counterweight to the volatility and risk of corporate banking and dealings with other financial institutions.

There are new business opportunities for Chinese retail banking. Revenue from the sector is expected to maintain a rapid growth rate of 11 percent per year from 2014 through 2020, with total revenue expected to reach RMB 3.5 trillion by 2020—double the total revenue from retail banking in 2014—accounting for over 40 percent of all Chinese banking revenues.

Small and micro loans, consumer loans, and wealth management services will be major contributors to this growth. One reason for this development is that the accelerated pace of disintermediation in financing for large corporations has driven corporate banking toward the booming small and medium enterprise (SME) sector. In addition, demand for individual loans has risen dramatically as the consumption needs of the general population has steadily grown in response to factors such as the government’s income multiplication plan and continuing urbanization. Also, the aging population and a flawed social security system have driven up demand for wealth management, insurance, and other related services. (See Exhibit 1.)

This is a very familiar development track for mature economies. According to The Boston Consulting Group (BCG)’s world retail banking database, retail banking revenues account for more than 40 percent of all bank revenues in the U.S., Europe, Japan, South Korea, and other mature markets with liberalized interest rates. Revenue from retail banking is even higher in certain individual markets such as Germany and France, where they approach nearly 60 percent of all revenue. A robust retail banking sector is seen as a natural consequence of healthy competition and industry maturation in the banking sector. (See Exhibit 2.)

Although retail banking still accounts for a relatively small portion of all Chinese banking revenues, the major players in the industry have begun to push for, and achieve, better results from their retail operations in the past few years. BCG analyzed published data from 12 publicly listed banks that go into detail about their retail operations and found that retail banking accounted for only 27 percent of all business at these banks in 2008, but jumped to 34 percent by the end of 2013. Revenue from retail banking has grown to more than 35 percent of all revenue at the four major state-owned banks, and more than 45 percent in one case. Leading joint-stock banks have also gained ground through innovations in channel, products, and other areas. Their revenues from retail banking typically accounts for 25 to 35 percent of total revenue. Meanwhile, the majority of urban commercial banks continue to explore retail business
Exhibit 1. Small and Micro Loans, Consumer Loans, and Wealth Management Services Will Become Major Contributors to Retail Banking Growth

China Retail Banking Revenue by Product (2008-2020)

Source: BCG 2020 Retail Banking Revenue Model.
Note: CAGR = compound annual growth rate.

Exhibit 2. Retail Banking Revenue Usually Exceeds 40% of All Banking Revenue in Mature Markets and Approaches Nearly 60% in Some Markets

Retail banking revenue usually exceeds 40% of all banking revenue in mature markets, and approaches 60% in some markets

Source: BCG Global Banking Database.
opportunities in public-private partnerships, local social security accounts, local special services, and other services.

Retail banking provides a stable, low cost source of capital. In 2013, the loan-to-deposit ratio for the China’s banking sector as a whole was 66 percent, with many major state owned and joint-stock banks approaching 75 percent. The difficulty of attracting new deposits is a dilemma common to all banks. At the same time, as the Chinese economy makes structural adjustments and shifts into a phase of medium-high growth of around 7 percent, revenue growth and the capital turnover rate for enterprises will slow down, implying that large-scale growth in corporate deposits will plateau. Meanwhile, a fierce battle has broken out on yields for increasingly homogenous product offerings from different banks, which has made it difficult to control the cost of capital for these financial products and led to a marked decline in saving accounts. This is why many banks are focusing intently on the question of how best to take advantage of retail banking to gain access to a stable and low-cost source of capital.

Generally speaking, the big four state-owned banks, thanks to their ubiquitous channel presence and massive customer base, have an easier time attracting deposits. Retail deposits account for more than 45 percent of all deposits at these institutions. On the other hand, retail deposits during the same period at major joint-stock banks make up only around 20 percent of all deposits on average, while the ratio is even lower at urban commercial banks. There is an urgent need to optimize the deposit structures of joint-stock and urban commercial banks in the next five years.

Retail banking can offset the risks of corporate and interbank business. Compared with those business lines, retail banking is characterized by small unit volumes and well-diversified risk, which naturally contributes to greater stability. This particular type of stability has been firmly confirmed during past cycles of financial volatility. For example, in the early 1990s, when Citibank sustained heavy losses from soured bets in real estate and sovereign debt from developing countries, its steady retail expansion enabled it to emerge from the crisis. After a roughly three-year span of subpar results, Citibank’s return on shareholder equity returned to pre-crisis levels in 1994 and then grew rapidly in the late 1990s. (See Exhibit 3.)

Citibank is not an exceptional case. In fact, during the 2008 financial crisis, retail-focused banks (that is, banks whose retail operations generate more than 50 percent of all revenue) were, on average, about five times more profitable than diversified banks (that is, banks that derive less than 50 percent of all revenue from retail operations), with less volatility. (See Exhibit 3.) In addition, investors often favor an emphasis on retail banking operations, as reflected by their higher valuations. As the economy in China enters into a new normal of shorter economic cycles and greater volatility, the strategic importance of the retail banking sector is becoming increasingly pronounced.

The importance of retail banking cannot be overlooked. After 20 years of rapid development, products have gone from simple to diverse; customer segmentation and management systems have been built from scratch; and service has grown from single channel to multichannel. But the sector still faces a series of challenges including homogenized product offerings, simple and clumsy customer management, fragmented internal chains of command, and a slow response to a changing environment. At the same time, after nearly ten years of sustained investment, the expectations of decision makers inside these banks for their retail units are gradually shifting from capital-intensive investments to profit-generating cash cows.

Looking ahead to the year 2020, how should retail banking respond to these challenges? It is necessary
to fire on all cylinders and act now to gain insight into the new normal, both internally and externally, in order to create differentiated retail banking models and develop the seven key retail banking capabilities.

2. Identifying the Six Characteristics of the “New Normal” in Chinese Retail Banking

Looking back at the development of China’s retail banking during the past 20 years, it’s clear that the sector has made great strides toward enriching its product offerings and strengthening its customer service management. Banks have also placed a greater emphasis on their retail businesses. Looking forward, the Chinese retail banking sector faces a series of new trends in its progression toward a new normal. This new normal will inevitably accelerate the already rapid transformation of China’s retail banking sector.

2.1 The New Customer: Strong Demand for Financial Products, but Behaviors and Expectations Have Changed Significantly

As customers for Chinese retail banks continue to become more sophisticated, their demands are becoming more complex. Twenty years ago, the needs of individual customers were very simple: They mainly wanted a safe place to save their money and occasionally transfer balances. Debit cards, credit cards, and online banking came on the scene in the late 1990s and early 2000s, giving customers more channels to make transactions and submit payments and generating the need to do so in the process. In the past ten years, demand has mushroomed for services such as household wealth management, mortgages and home purchase loans, credit, and overseas payments as consumer acceptance of and dependence on financial services continued to grow.
In the future, as macroeconomic policies such as income multiplication and urbanization continue to drive growing demand for financial services, the role that these services play in the daily lives of the customer, as well as their complexity, will continue to expand. New customer groupings, such as the middle class, the elderly, the emerging urban population and more, will take shape based on their distinct characteristics and preferences. For our special report on high net-worth customers, please check out BCG’s latest publications on Global Wealth and China Wealth.

The Middle Class
China’s overall consumption has grown at a heady pace during the past ten years. According to BCG analysis, China’s individual consumption has grown at an 18 percent compounded annual rate in the past ten years; total individual consumption nearly doubled from 2010 through 2014 and now stands at nearly four times the level of 2005. As shown in Exhibit 4, the growth rate for individual consumption in China is far higher than that of mature markets and has pulled away from emerging markets such as Brazil and India in recent years. Another interesting way to view the growth is to note that a Chinese child born in 2009 is expected to consume about RMB 4 million of goods and services during his or her lifetime—more than 38 times what his or her grandparents, born in 1960, will consume during their lifetimes.

The middle class is the driving force behind this surge in consumption. According to research by BCG’s Center for Consumer and Customer Insight (CCCI), middle class families (including the affluent middle class, middle class, and potential middle class, defined as all families with monthly incomes of RMB 5,000 to RMB 23,000) accounted for 63 percent of all households in China in 2014. Individual consumption by middle class households accounted for 76 percent of individual consumption nationwide. (See Exhibit 5.) There is also an obvious trend of the middle class households upgrading their consumption level, gradually gravitating from necessities to higher-value added categories such as organic food, dining out, automobiles,
luxury goods, and overseas travel. This is a reflection of the emerging middle class’s pursuit of a higher quality of life in China, and related financial services such as automobile loans, consumer loans, overseas financial services, credit cards, and payments will be an integral part of this pursuit of a higher living standard.

The Elderly
According to BCG’s population database, 24 percent of China’s total population was older than 50 in 2010. That proportion will rise to 33 percent by 2020. The number of retirees is expected to increase by 150 million in that ten-year period. China’s aging population has become an unavoidable issue. However, the current security system, anchored by the government, will not be sufficient to meet the pension needs of a majority of the population. In 2013, for example, the urban social endowment insurance system covered 820 million people across the nation, which is roughly 60 percent of the entire population. The per capita endowment fund surplus, however, was only RMB 3,800, which is not enough to guarantee retirees a livable income. That is why financial products and services such as business pension insurance, wealth management, various funds devised to maintain principal or produce a return on it, and annuity-like products have become important supplementary pension instruments with huge growth potential.

The Emerging Urban Population
Urbanization is another major macro trend in China’s economic and social development. It is expected that the Chinese urbanization rate will exceed 60 percent by 2020, which means an increase of more than 100 million residents in urban regions. A 2014 government report also outlined the “three pressing tasks which will each affect 100 million people.” These three tasks are “first, allowing 100 million migrant workers from rural regions to settle in urban areas; second, improving living conditions for 100 million people living in shanty towns and other decrepit neighborhoods in the city; and third, guiding 100 million residents of China’s western regions to move into nearby local cities to help that region rapidly urbanize.” This political mandate will spur tremendous demand growth in sectors such as healthcare, retirement and pension funds, education, housing, and consumer goods.
Moreover, according to estimates by BCG’s Center for Consumer and Customer Insight (CCCI), from 2014 through 2020, more than two-thirds of emerging middle class families will come from third- and fourth-tier cities or even less developed regions. As markets become more saturated and fiercely competitive in first- and second-tier cities, third- and fourth-tier cities and remote provinces will become an important growth area for retail banking in the next five years. This is why, in order to come up with better coverage for this new emerging urban middle class, banks will need to establish a presence in 350 to 600 cities. (See Exhibit 6.)

However, although demand for personal financial services remains strong, customer behavior and expectations of their financial dealings have changed substantially, and this evolution has become a real issue for retail banking in China. BCG systematically analyzed customer behavior changes in its October 2014 report, *The Rise of Digital Finance in China: New Drivers, New Game, New Strategy*. Some of the biggest changes in customer behavior include a shift from passive information acceptance to proactive information collection and decision making and choosing to receive financial services from a channel and at a time of their own choosing rather than passively accepting a particular time frame or channel.

The information acquisition and decision-making process has also become more complex for customers. First of all, in the past, bank customers usually did not have the need for information or the means to obtain it; they chose banks mainly on the basis of their proximity to their residence or because their salaries were directly deposited there. Nowadays, customers not only instinctively seek to “understand” and “compare,” they also have far more information sources, such as online and offline advertisements and social media networks. They also have easy access to promotional events for different brands that allow them to experience products and services firsthand. Second, when comparing different financial institutions and evaluating which one to do business with, they find that the functional roles and rates
for financial products are highly homogeneous. In those circumstances, their decisions often come down to whether the bank or product is “interesting,” “fresh,” “personalized,” or “a hot topic.” Finally, after completing the purchase, customers have a greater need for interaction and sharing. They might, for example, recommend a product to their friends on WeChat, share their total bill from the past 10 years with Alipay, or choose from among many other options. The China Brand Advocacy Index (BAI) survey conducted by BCG in 2014 found that 45 percent of young adults from 18 to 25 years of age will definitely recommend or criticize the bank brand they’ve dealt with, while 36 percent of people from 26 to 35 years of age indicated the same. In other, older customer segments, this ratio is less than 30 percent. As a whole, the process of acquiring information and decision making for customers is no longer restricted to being single channel, linear, and passive, but rather open, multifaceted, and interactive.

As a direct result of this type of change, when customers judge whether their financial services are adequate, their point of reference is no longer other financial institutions, but rather their own experiences in related sectors. For example, when customers are using an online bank, they may be referencing the convenient process and straightforward page design of e-commerce websites; when customers are at a bank branch location, they may be comparing the experience to the personalized audiovisual experience and comfort of a retail store or a coffee shop; when customers are shifting between different channels, they may be comparing the process with the multiscreen interaction and seamless transition of digital electronics. This is why customer expectations for financial institutions usually come in the following forms:

- I want to have access to real-time information
- I want to solve my problems with only one phone call
- I want to understand this product within one minute and be able to buy it online within 5 minutes
- I do not want to be asked questions I’ve already answered
- I want to be able to see all the information I care about on a single page
- …

However, banks still haven’t developed an adequate response to changing consumer expectations. According to BCG Global Consumer Survey on Digital Retail Banking 2014, customer expectations for service delivery efficiency is 72 points, but the actual bank execution is rated at only 41 points; customer expectations for a simple, easy, convenient, and expedited process is 67 points, but the actual bank execution is rated at only 35 points; customer expectations for real-time interaction and communications is 67 points, but the actual bank execution is rated at only 20 points. These disparities reflect the huge gap between customer expectations and the actual delivery of banking services. (See Exhibit 7.)

The same gap is also present in the results from BCG’s 2014 China BAI. According to the survey, only 35 percent of retail banking customers would recommend the brand they are currently using, the lowest rate of any industry. (See Exhibit 8.) The giant gap between customer expectations and banking practices is unmistakable.

For strategists in the China retail banking industry, “the customer comes first” cannot simply be a slogan, but rather must be a call to action. These decision makers must carefully consider how to cater to the middle class, the elderly, the emerging urban population and other opportunities that may
Exhibit 7. According to a BCG Study of Global Bank Customers, a Huge Gap Separates Customer Expectations and Bank Performance

Customer expectations

Bank’s actual performance

Service delivery efficiency

Customer expectations: 72

Bank’s actual performance: 41

Simple, easy, convenient, and expedited process

Customer expectations: 67

Bank’s actual performance: 35

Real-time interactive communications

Customer expectations: 67

Bank’s actual performance: 20

Source: BCG Global Consumer Survey on Digital Retail Banking 2014.

Exhibit 8. In China, Retail Banking Is Tied for the Lowest Customer Satisfaction Rate

BCG China Brand Advocacy Index Survey 2014

Source: BCG China Brand Advocacy Index Survey 2014.
arise, streamline and reorganize their knowledge acquisition, purchasing, and service processes for their customer, and provide a vastly improved customer experience that can spread quickly through recommendations. Banks that can quickly change their mindset, improve their service, and strive to meet customer needs and expectations are the ones most likely to compete for retail banking supremacy.

2.2 The New Normal for Channels: All Customers Are Using Multiple Channels

According to CNNIC statistics, there were 630 million internet users in China as of first half of 2014, 47 percent of the entire population of the country. Of those users, 83 percent go online via their smart phones. Smart phone Internet users spend an average of 116 minutes per day using different apps, with the usage rate of online shopping, payment, and banking apps undergoing the most significant growth. (See Exhibit 9.) Mobile payment apps, for example, exceeded a 30 percent compound annual growth rate for several quarters during the past three years. The share of mobile payments grew from 4 percent of all electronic payments at the beginning of 2013 to 15 percent in third quarter of 2014 and shows no sign of slowing.

In addition, going digital isn’t a trend limited to a particular region or population segment, but rather something that’s taking all of China by storm. BCG’s 2014 China BAI discovered that customers of all ages see convenient online banking as an important factor in whether they would recommend a bank, a line of reasoning that resonates with 51 percent of customers 18 to 35 years of age, 40 percent of customers 35 to 45 years of age, and 49 percent of customers 45 to 65 years of age. Convenient online banking ranks ahead of convenient branch location, branch facilities, service, and other factors. Online banking and mobile banking is no longer the exclusive domain of the younger generation, but rather something that’s integral to every customer’s choice of channels.

**Exhibit 9. Payment and Banking Apps Are Experiencing the Most Significant Growth**

<table>
<thead>
<tr>
<th>Category</th>
<th>Usage rate of mobile apps by category, 2012–2013</th>
<th>2013 VS 2012 YOY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile IM</td>
<td>86.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Mobile news</td>
<td>84.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Internet search</td>
<td>84.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Internet music</td>
<td>82.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Mobile video</td>
<td>75.3</td>
<td>17.3</td>
</tr>
<tr>
<td>Mobile games</td>
<td>73.8</td>
<td>9.9</td>
</tr>
<tr>
<td>Mobile ebooks</td>
<td>70.0</td>
<td>-2.8</td>
</tr>
<tr>
<td>Mobile Weibo</td>
<td>60.5</td>
<td>-8.9</td>
</tr>
<tr>
<td>Social network</td>
<td>61.1</td>
<td>-11.1</td>
</tr>
<tr>
<td>Mobile shopping</td>
<td>58.5</td>
<td>-7.7</td>
</tr>
<tr>
<td>Mobile payment</td>
<td>45.5</td>
<td>-9.9</td>
</tr>
<tr>
<td>Mobile banking</td>
<td>45.9</td>
<td>-10.5</td>
</tr>
<tr>
<td>Mobile groupchat</td>
<td>27.0</td>
<td>-11.0</td>
</tr>
<tr>
<td>Mobile BBS</td>
<td>15.1</td>
<td>-5.8</td>
</tr>
<tr>
<td>Mobile travel</td>
<td>9.2</td>
<td>-3.2</td>
</tr>
</tbody>
</table>

That’s not to say that customer reliance on bank branches will completely disappear, especially when it comes to large transactions and relatively complex inquiries. Although physical channels will contract to a certain degree, they still require a complete makeover of their positioning, business formats, functionality, and processes. The financial institution of the future will be equipped with an organic combination of multichannel and omni-channel customer engagement strategies, with each channel equipped with different functional roles that cater to different customer needs. The institution will need to be able to offer seamless transition between different channels in order to better adapt to the different natural habits and context of each customer.

Exhibit 10 is BCG’s estimate and projection of the channel mix in the U.S. banking industry. From this chart, it’s apparent that in the ten years from 2010 to 2020, transaction volume at physical branch locations and ATMs holds steady. Almost all new transaction volume will come from the Internet and mobile channels, which leads to an organic mixture of multiple channels.

BCG Global Consumer Survey on Digital Retail Banking 2014 found that 57 percent of customers in developed markets are already multichannel users (defined as those who use at least two channels). This ratio is even higher, at 64 percent, among the affluent. (See Exhibit 11.) The situation in China is similar because the Chinese bank customers find their brick-and-mortar branch location experience even less satisfying, which helps motivate them to take advantage of digital or self-service channels for some transactions, thereby making them natural multichannel customers. (A survey of retail banking customers in China was initiated at the beginning of 2015.)

The migration to multichannel banking will also benefit banks in several ways, including:

**Exhibit 10. Volume at Brick-and-Mortar Branches Will Remain Stable in the Future; New Volume Will Come Mainly from Internet and Mobile Channels**

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Sources: BCG forecast and analysis; BCG project experience.
- Gaining a complete grasp of customer behavior through cross-channel measurements, which helps piece together the total picture when calculating customer contribution to profits.

- Stimulating willingness to buy using the different perceptions of different customers to design innovative products and services that address different needs throughout all channels.

- After successfully stimulating demand, ensuring the establishment of a seamless and effective multichannel line to the customer to reduce customer turnover caused by inconsistent service across different channels during the sales process.

- Maximizing channel effectiveness through optimizing labor across different channels. For example, the time an account manager spends at a physical branch can be better utilized towards higher-value sales activities.

In fact, BCG’s analysis of the banking market in the U.S. has discovered that customers who utilize more channels usually contribute more to the profits of a bank. As shown in Exhibit 12, if we assign a numerical value of "1" to the contribution to profit for a customer that only uses a bank’s online channel, then a customer that takes advantage of branch locations as well as online channels usually makes a contribution to profit of 2.4, and when we add telephone banking to that, the contribution that customer makes to profits rises to 3.1.

This is why integrating multiple channels is not only a necessary step for retail banks to adjust to the new customer, it’s also a golden opportunity to reduce customer turnover, increase sales opportunities, and improve customer contribution to profitability. Retail banks must acquire a thorough understanding of what customers want from their channels and the context in which they use them, then strategically address these issues.
2.3 New Products: Not Just Products, but Everyday Solutions

The growing integration of financial services with the everyday life of the customer is the main driver of product changes in retail banking. When we talk about integrating financial services with people’s daily lives, we mean having financial services and products that are deeply intertwined with the many facets of people’s everyday lives, silently providing financial services as a part of the customers’ consumption experience without having a disruptive presence.

In the past, it was the role of the middle office or back office, where the emphasis is on safety and specialization, to design products according to internal regulations and policies. When designing loan products, for example, conventional financial institutions first consider factors such as collateral, maturity, and price; only after the institution has finished designing the products does it begin to consider what customers it will sell to and what channels it will sell through. In other words, the product design process is very detached from actual customers, and product development takes little note of customer preferences.

In the future, however, financial products will be deeply intertwined with the daily lives of customers. They must address a pain point in the customer’s daily life in order to gain proximity to the customer. These products will require financial institutions to make at least two changes. The first is to become more proactive about customer acquisition. Banks must shift from passively waiting for customers to walk in the front door to actively pursuing them through their daily habits. Secondly, the product design process must begin with a customer pain point and provide a solution through financial products or services.

Consider housing loan and car loans, for example: Differentiating such products by price and function will
become very difficult in the future. Instead, it will be more important to jump in at the start of the house or car purchasing process and provide customers with a streamlined end-to-end solution that provides convenient access to information acquisition, product comparison, decision-making, purchasing, and after-sale services, achieving real differentiation by embedding their financial products in the solution they offer to customers.

2.4 New Technology: Mobile Internet, Cloud Computing, and Big Data Changes How Financial Products and Services Are Delivered

Mobile Internet
The popularization of mobile devices and 3G and 4G networks have allowed people to remain connected and online at all places and times. Their preferences, actions, and even state of mind can be discovered and tracked in real time. In addition, the various capabilities and characteristics of mobile devices have laid a solid foundation for commercial and financial applications. A few examples: High-resolution camera sensors can scan barcodes and QR codes; GPS positioning can help easily locate nearby services and products; Internet access allows people to make various inquiries and payments and share their activities in real time. The mobile internet has enabled the smooth integration of commercial and financial services into multiple facets of people’s everyday lives, providing a solid foundation for innovations in and widespread application of Internet and mobile finance.

Cloud Computing
Cloud computing is a form of computing that provides dynamic and scalable virtual resources in the form of a service through the Internet. In theory, all computer applications and services can be remotely realized through the Internet and cloud computing. Cloud computing is significant for Internet finance in these two ways:

- For customers, cloud computing is the basis for mobile connectivity and multiscreen interactivity. Because cloud computing stores and processes information remotely, it lowers hardware requirements for the end terminal, making possible mobile connectivity through light terminals such as smart phones and tablets. At the same time, as a cross-platform “back-end” storage and processing center, the cloud allows the same content and application to be seamlessly delivered to different terminals, thereby achieving multiscreen interactivity.

- For financial institutions, cloud computing helps lower operating and innovation costs. Cloud computing is a virtual mainframe resource, which means it has relatively strong scalability and flexibility when compared with traditional IT systems. Institutions can use however much they need without a large initial investment. Cloud computing also allows financial institutions to deal easily with sudden “peak load” events on the Internet, thereby dramatically lowering the system investment and operating costs of small and medium enterprises (SMEs) and financial institutions. More importantly, cloud computing provides low-cost base from which financial institutions can innovate and experiment through trial and error.

Big Data
New digital technology can greatly enhance customer experience. In analyzing customer experience from the two angles of customer contact and customer insight, digital technology can on one hand expand the breadth of customer contact through channel diversification, transforming from limited physical contact to unlimited virtual contact at any time and any place with anyone; on the other hand, digital technology can continuously improve the depth of customer insight through the accumulation and application of data, transforming customer insight from one-dimensional to multidimensional, static to dynamic, and generalized to individualized. (See Exhibit 13.) In the past, digital technology in the financial industry was
mostly applied toward expanding channel scope. However, in the next five years, digital technology will mainly be applied toward gaining a deeper insight into customers, which is why big data will become the most strategic resource of the next five years.

Specifically, compared to traditional data applications, big data changes the conventional operational model in four ways, and in the process realizes value from the data, helping financial institutions achieve embedded transformation. We call these four changes the 4Cs. They are:

- **Compatibility**: Big data improves the latitude of data analysis for quality through quantity.
- **Connectedness**: Big data enables technology and algorithms to shift from static to “always on”.
- **Cost**: Big data lowers the minimum cost requirements for data analysis.
- **Capitalization**: Big data efficiently converts data to value.

Mobile connectivity, cloud computing, big data, and other new technologies have dramatically transformed the way financial products and services are delivered from both the supply and the demand side. From the demand side, the Internet and mobile Internet enables customers to be connected and online whenever and wherever they want and allows their preferences, actions, and even state of mind to be discovered and tracked in real time. This in turn has made their financial needs easier to discover and track at a low cost. From the supply side, big data analytics is a great addition to the sales and risk control efforts of financial institutions. Cloud computing lowers the cost while improving the efficiency of providing financial services.
which in the end create a better match between financial supply and demand. Whoever is the earliest to adopt, adjust, and incorporate these new technologies in the retail banking sector will have a head start on the competition in transforming these new challenges into opportunities.

2.5 New Regulatory Framework: Regulators Are Encouraging Innovation in Personal Finance, Retail Banks Need to Take Advantage

Since the end of 2014, there have been many policy changes targeted toward the realm of personal finance. Macro reforms have steadily pushed toward market-based interest rates and a deposit insurance system. On November 21, 2014, the People’s Bank Of China raised its deposit rate ceiling from 1.1 times benchmark deposit interest rates, a standard set back in 2012, to 1.2 times. At the same time, the institution simplified and combined the deposit and loan benchmark interest rate grades, which has paved the way for further market-based interest rate pricing. On November 30, 2014, China’s proposal for a deposit insurance system, a draft 20 years in the making, was finally released. China’s State Council approved the draft in January 2015. Regarding the specific regulatory measures, in January 2015, the People’s Bank Of China issued the Guiding Opinions on the Remote Opening of Renminbi Bank Accounts by Banking Financial Institutions (Draft for Comments), which signals that it might be possible to open accounts remotely in the future. Almost at the same time, the People’s Bank Of China also issued the Memorandum on Making Preparations for Personal Credit Information Operations, asking eight non-bank institutions including Alibaba Credit Management and Tencent Credit Services to prepare for personal credit information operations, which could be a signal that the personal credit sector will be opened up in the future.

This series of measures is both a challenge and an opportunity for retail banks. The challenge is, first, that market-oriented interest rate reform requires retail banks to discard their reliance on the spread between deposit and loan rates and develop product innovation and risk-managed pricing capabilities; second, that the deposit insurance system makes the banking industry more market-oriented and creates a safety net, which helps to promote competition and differentiation within the banking industry; third, that enabling remote account openings and personal credit will play a major role in promoting the development of Internet finance and other non-traditional finance sectors, which will further challenge traditional retail banks. At the same time, this series of regulatory framework changes also creates an unprecedented opportunity for retail banks to strengthen their internal capabilities, promote competitive differentiation, and improve operational and innovation capabilities.

Commercial banks operate in a financial arena with mandatory regulatory oversight: Their operations cannot fall outside of the regulatory framework, and their innovations must meet regulatory mandates. Strategists for the retail banking industry must actively meet regulatory requirements and capture opportunities to innovate within the confines of the regulatory framework.

2.6 New Competition: New Competitors, New Competitive Landscape

In the personal finance space, banks do not compete only against other banks. In fact, banks face competition from other financial and non-financial institutions to provide personal finance services such as payments, transfers, savings, loans, investments, and advisory services. (See Exhibit 14.) This competition will gradually become the new normal, which will then gradually change the way institutions compete as well as the competitive landscape in the personal finance sector.

Looking at the models for competition, traditional philosophies that have guided financial institutions will be completely upended:
• In the past, the structure and internal management of the financial institution determined how they served customers, but in the future, customer needs must be the starting point. That’s because customers have more choices, it will cost them nearly nothing to switch among different financial institutions.

• In the past, financial institutions learned about their customers through branches and the experience of account managers. They maintained infrequent interactions with customers that yielded one-sided, partial, and out-of-date information. But in the future, financial institutions will use their network of internal and external channels and data to learn about their customers. Their will maintain frequent interaction with their customers, which will yield comprehensive, three-dimensional, real-time customer data.

• In the past, financial institutions played the role of expert and authority and addressed only the financial needs of their customers. But in the future, financial institutions will need play the role of a service provider and meet the lifestyle, emotional, and social needs of their customers through financial solutions.

• In the past, one single financial institution could cover the entire value chain and serve customers internally. But in the future, financial institutions will need to divide tasks according to the expertise required, serving their customers through an open ecosystem.

As a result, the competitive landscape in personal financial services will change dramatically, initially through vertical specialization. We will likely see China’s personal financial services business rearranged as follows (See Exhibit 15):
• **Customer acquisition becomes fragmented.** Because customers are obtained through different lifestyle applications, customer acquisition becomes as fragmented as the applications they use. Different agencies control different applications, and thus acquire different customers.

• **Service channels become networks.** Each financial institution may have one or more service delivery channels. More importantly, channel cooperation and sharing among different institutions will become more extensive. Financial and non-financial institutions will cooperate on all those channels to an unprecedented degree, in the process forming a complex network of channels.

• **Product operations become integrated.** A large number of professional suppliers will spring up in the fields of product development, service design, process, technology, and data, which means financial institutions can quickly obtain relevant capabilities through outsourcing, reducing both costs and response times.

Of course, some full-featured financial institutions will retain the will and ability to control the entire value chain, but small and medium-sized financial institutions will be well-advised to find the niche best-suited to their own specialization and cultivate their capabilities and expertise on one link of the value chain. As each institution focuses on a particular link in the value chain or cultivates a specific competitive edge, the industry will veer toward different differentiation models. We will discuss five possible models of differentiation in the next chapter.

### 3. Focusing on the Five New Models for Differentiation

How should retail banks respond when facing a new normal in which customers, products, channels, technologies, and competition are all rapidly changing?
In order to facilitate discussion on this question, BCG proposes a three-level framework for retail banks that include the following elements:

- **Experience level**: consists mainly of the customer experience in channels, products, and services;
- **Delivery level**: consists mainly of operations to deliver the customer experience including processes, data, and IT;
- **Management and control level**: consists mainly of pricing, risk control, and basic management elements such as organization, talent, and culture.

In addition to these three levels, the customer is the soul of the system—a key player at all three levels. There is also a broader ecosystem that covers both internal and external levels. (See Exhibit 16.)

Different banks can form different business models through differentiated value propositions at each of the three levels. The five major models include: the customer-centric institution, the channel innovator, the product specialist, the universal bank, and the ecosystem integrator.

### 3.1 The Customer-Centric Institution: “My Bank”

The core feature of the customer-centric model is the decision to target one or more customer segments rather than all customers. After defining the target segments, banks will design and organize channels, products, services, and processes based on the particular characteristics of their customers.
A classic example of the customer-centric bank is Malaysia's MACH bank. A sub-brand of Malaysia Hong Leong Bank, MACH bank has developed a completely new operating model and brand image designed to serve young customers uninterested in traditional bank. Its target customers are of the young digital generation, drawn to fashion, novelty, and personalization.

MACH's product line is very simple. The bank only offers a few basic financial products such as savings accounts, credit cards, insurance, car loans, and consumer loans, but these products already meet the major financial needs of most young people. Product design is entertaining and fun. For example, the simplest savings account is marketed as a “Dream Jar:” Customers can set a goal—an overseas trip, for example, or an iPhone—then set a regular deposit amount and schedule. If customers make deposits as scheduled and reach their goals, the bank rewards them with a generous yield.

MACH's channels are designed for young people. Bank branches are located in popular shopping malls favored by the young and dispense with the traditional branch location format, removing counters and tellers and replace them with self-service and experience zones. The design of these branches resemble Apple stores, fashion boutiques, or other “experience” destinations, complete with picturesque touchscreen kiosks, exquisite product brochures, comfortable sofas, and even guitars. MACH also serves customers through convenient online and mobile internet channels.

Aside from young adult oriented banks such as MACH, some banks have also dedicated themselves to servicing high-middle-end customers, female customers, and senior customers. These are all ways of achieving a differentiated business model through selecting and then focusing on a particular customer segment.

### 3.2 The Channel Innovator: “Convenience Banking”

The core feature of the channel innovator is the pursuit of differentiation through convenient channels and a good channel experience. In its fully realized form, the innovator organically integrates and combines different channels. During the process of realization, some banks emphasize offline channels, while others emphasize online channels.

Easy Bank, a unit of Malaysia's RHB Bank, is an example of an offline channel innovator. It represents the rise of new retail banking model that emphasizes simplicity and convenience. Unlike traditional bank branches, Easy Bank's tiny, eye-catching, branches, similar to in-store fast-food kiosks, can be found in supermarkets, shopping centers, post offices, subway stations, and other high-traffic locations. The branches range in size from less than 10 square meters to no more than 50 to 80 square meters. They boast a relaxed atmosphere, compact layout, eye-catching product displays, and longer operating hours, and their standardized modular design ensures a consistent brand image and customer experience that can be expanded quickly at a low cost. In step with its new branch model, Easy Bank offers five major standardized products, a fully digital shopping experience, and an expedited credit approval process to provide truly simple and convenient banking services.

China Resources Bank of Zhuhai follows a similar model. Positioning itself as a convenient community bank, it sets up branches in supermarkets, shopping malls, and neighborhoods, all places that remain closest to the customer. Branches located in supermarket and shopping centers are adapted to have a retail store layout covering only several dozen square meters. Branches are standardized and modular, and their sizes are reduced, which all facilitate rapid replication and redeployment. Bank staff works in shifts, which allows the branches to stay open until 9 pm and offer the customer more convenience. The bank
focuses on wealth management, credit, and other products that local customers are most interested in. Its main products are streamlined: Its “Happy Loan” product, for example, can be set up and approved in three hours with just a personal ID card.

Poland’s mBank is a classic example of an online channel innovator. Since 2000, mBank has positioned itself as purely online bank. In 2014, after ten years of development and exploration, it overhauled its online systems, functions, products, and services and marked the milestone with a new brand logo and image. The new mBank bills itself as modern, mobile, and social. The bank expresses its modernity through such measures as a simple, easy-to-understand interactive user interface, a rapid-response research and calculation system, and a “virtual branch” that allows customers to have real-time audio and video conversations with account managers. The bank realizes its mobile ambitions through a lineup of full-featured apps that provide a consistent visual and user experience with its online banking. At the same time, the bank utilizes mobile payments, GPS positioning and more to provide customers with a more robust offering of financial services and products. mBank’s integrates customers’ Facebook accounts with their bank accounts as part of their social front, allowing bank customers to make transfers directly from their bank accounts to Facebook accounts. The bank also has a number of games and interactive activities to engage customers with one another.

Domestic banks in China began a series of direct banking campaigns starting in early 2014 as part of their efforts to innovate their online channels. China Minsheng Bank (CMBC) has made the most significant progress, going online in February 2014 with a direct banking campaign aimed at the “digital elite”—affluent Chinese with high acceptance of digital channels. The bank’s purely online platform, which is set up as an independent entity, provides customers with channel services which are completely digital. At first, the bank focused on a few simple products such as transactions, remittances, deposit accounts and the Ru Yi Bao wealth management product. As the platform accumulated more customers and continued to gain steam, it also released investment and wealth management products “Ding Huo Bao” and “Minsheng Gold” as well as credit loans under the “Chen Xin Dai” moniker. By mid 2015, CMBC had signed up more than 2 million direct banking customers and accumulated more than RMB 30 billion in assets under management.

It should be noted that even mBank and direct banks where online channels have flourished do not advocate exclusively online platforms and digitization. They retain a human touch through a smattering of offline branches, coffee shops, or virtual online branches. They do so because for customers of today and tomorrow, the perfect retail bank is neither one that focuses solely on digital offerings nor solely on labor-reliant platforms, but rather a bank that strikes the optimal balance between virtual and physical, digital and human, to foster a natural and intuitive interaction between customers and their bank.

3.3 The Product Specialist: The “Expert Bank”

The core feature of the product specialist is achieving differentiation in products and services. This differentiation can take two possible forms: One is coming up with a very attractive value proposition in an otherwise homogenized and mature product category; another is to innovate during the product design process to achieve differentiation.

Santander Bank’s specialty is differentiating through providing an attractive value proposition with their products. Santander’s products themselves are not unique or innovative, but their prices are often lower than their competitors’, or they provide rewards and incentives that give back to their customers in various ways. Consider Santander’s products in the U.K.: If customers open a current account, they not only earn
interest on the balance in the account but also are the beneficiaries of free SMS and email reminders. These customers can even receive cash back on their bill payments: Paying telephone and broadband internet bills, for example, will earn them up to 3 percent cash back, and they can also earn up to 3 percent cash back from using credit cards. This sort of attractive value proposition is made possible mainly due to Santander’s effective cost control model; the bank provides very similar products in different regions around the world and support these products with a single global delivery platform (combining IT and operations), which drastically reduces the overhead on each product thanks to economies of scale.

The Commonwealth Bank of Australia (CBA) achieves differentiation through innovative product design. Take their home loan products, for example: The bank offers a home loan smart phone app that provides customers with end-to-end home purchasing services. The app is also embedded with the bank’s housing loan products, helping to cross-sell products relevant to customers. By observing customers and tracking their behavior, the bank identified many customer pain points during the house purchasing process, such as not knowing where to find their ideal home, not being able to access detailed information on a house they like, not knowing whom to contact, and low transparency on information about the state of the house, transaction history, neighborhood, price, and more. To address these issues, CBA developed a mobile app that specifically addresses each of these questions. Currently, the app covers 95 percent of Australia’s residential property, integrates all the information that customers care about, and provides services such as house comparisons, online amortization calculations, and real-time contact with properties and loan specialists. More than 200,000 copies of the app have been downloaded since its launch a year ago.

It’s worth noting that no matter which route a bank takes to become a “product specialist,” it cannot do so without a well-developed delivery platform. The attractive value proposition model often requires economies of scale, efficient operations, and an IT platform, while product innovation often requires robust data analysis and processing capabilities.

3.4 The Universal Bank: The “All-Purpose Bank”

The core feature of the universal bank is its full-service capability, which usually means a large-scale, all-purpose bank where every customer can obtain any and every service. In a certain sense, the universal bank is the “bank for everyone.”

U.S. based Wells Fargo Bank exemplifies the universal bank. It covers every customer segment, including local residents, small business owners, farmers, affluent customers, and high net worth individuals, and serves them with differentiated products and different coverage models that vary by each segment. For example, families with less than $25,000 in financial assets are usually served by the average customer service representative with basic savings account, individual loans, and credit card products. Families with financial assets ranging from $25,000 to $100,000, in addition to enjoying access to the basic products, have access to stocks, bonds, funds, options, and other fee-based services while being served by an entry-level account manager. Affluent families and aspirant customers with financial assets ranging from $100,000 to $1 million have second-level personal bankers or local private bankers to assist them in fee-based services such as stocks, bonds, funds, and options as well as mutual funds and wealth management products of various sizes and types. Private banking customers with total family financial assets of more than $1 million are assisted by private bankers with an array of high-end services that include customized loans, cash management accounts, alternative investments, and special asset management.

Wells Fargo’s diverse and all-encompassing channel mix reflects the bank’s universal coverage model. Its more
than 8,700 U.S. branches are located in densely populated areas with convenient access for local residents. The bank’s physical branches include freestanding banks, supermarket branches, mortgage centers, consumer finance centers, automotive finance stores, and wealth management centers. The company also employs mobile sales agents along with 12,500 ATMs and professional call centers, as well as an online bank voted “Best Internet Bank in the U.S.” Its more than 200 million users help the company form a comprehensive service channel system.

Wells Fargo has performed remarkably, but its business model is not for everyone. Building a universal bank often requires a lengthy process of development or numerous mergers and acquisitions in order to form a solid foundation of a certain scale on the customer base, product sales, and channel network fronts. For this model type, they are both willing and able to cover every front, but only a few banks are actually capable of executing on this model. Most banks must make a choice.

3.5 The Ecosystem Integrator: “More Than a Bank”

The core feature of this model is the bank-centric ecosystem, systematically organizing external products, services, channels, back-end, and more in order to achieve the integration of the financial with the non-financial. The customer is at the heart of the ecosystem, meaning that whichever institution controls customer resources can dominate the entire system. The ecosystem integrator connects these customers with different players in the ecosystem, including infrastructure providers, product providers, service providers, and data analysis business partners, through building core platforms.

Japan’s Rakuten Group exemplifies the financial services ecosystem integrator. The group’s three business segments include e-commerce, online finance, and other. The core of the e-commerce segment is the company’s e-commerce platform; this segment also includes electronic books, travel packages, and other products. The online finance segment includes online banking, online brokerage, credit card, electronic currency, life insurance, and more. The third segment includes businesses such as investments in telecommunications and the Tohoku Rakuten Golden Eagles baseball team.

The core of the Rakuten ecosystem and the entry point for customers, is its e-commerce platform; the backbone of the system is Rakuten’s credit card business and its unique Super Points rewards program.

Rakuten acquired Aozora Card Co., Ltd. in 2004 and Kokunai Shinpan Co., Ltd. in 2005 to form the company’s credit card business. Since third party payment systems are not very popular in Japan, credit cards account for 70 percent of all e-commerce transaction volume; having a stake in the credit card business means gaining control over capital flows and a large quantity of transaction data.

Rakuten’s Super Points rewards program is considered one of Japan’s most successful loyalty programs. Eight out of ten Japanese are members of this program, and members can use their IDs to collect and exchange points across different business segments. For example, Rakuten members can use points earned by shopping online to pay off booking fees on Rakuten travel or with Rakuten’s online banking fees. The unified membership system also helps Rakuten keep control over a large treasure trove of live and truthful customer data, which helps the company gain more accurate customer insight and provide more on-point services.

The payment system, in conjunction with the membership system, enables Rakuten to maintain strong control over capital and information flow within the ecosystem, which is key to the prosperity of the entire ecosystem.
Although Rakuten Group did not begin as a bank or a financial institution, thanks to the company’s control over its ecosystem, Rakuten’s finance segment has achieved rapid growth over the past ten years. In 2013, overall revenue for the Rakuten Group reached 518.5 billion yen, of which the company’s finance segment accounted for 201.4 billion yen, or nearly 40 percent. Rakuten’s securities, credit cards, banking, and other services all lead their segments of Japan’s Internet finance market.

For China’s domestic market, it’s more likely that an ecosystem integrator will first appear in the form of a privately owned bank that began as an Internet company before entering the banking industry via physical channels. That’s because such companies have natural access to abundant customer resources from their e-commerce, social media, and other core platforms that are ubiquitous in everyday life. They also have already established relatively complete ecosystems. It is a major challenge for a traditional bank to create an ecosystem from scratch then become the core of that ecosystem, but banks should pay close attention to the ecosystem integrator operation model of melding finance with everyday life and opening up parts of the operation to other players, or actively participate in other ecosystems to adapt to the new competitive environment.

3.6 Lessons for Different Banks

Faced with these differentiation business models, different banks face different challenges and choices.

A few large universal banks still have the desire and ability to control the entire value chain. For these banks, the most urgent need probably is not whether to make a choice, but rather how to adapt to changes and hold on to their current large and deep customer base while reforming and innovating. The challenges for these large universal banks do not lie in resources or technology, but rather their systems’ lack of flexibility. That’s why the key to winning is to conquer the system’s internal obstacles to set up a flexible, responsive organization.

In comparison, medium to large sized joint-stock banks are more limited in their access to their resources, but their systems are also more flexible. They are capable of choosing among customer segments, channels, products, and technology in order to create a truly differentiated business and delivery model, and it will be necessary for them to make choices. The customer-centric institution, channel innovator, and product specialist models are all examples. These banks should also take a more active role in participating in or establishing various ecosystems. They should cooperate internally and externally, divide business along the value chain according to expertise, and collaborate across different sectors to quickly achieve a larger and more specialized business model, or even create new business opportunities.

Small urban commercial banks face an imminent choice. Their strategy for the next five years should emphasize seizing upon their geographic advantage to acquire more customers and establish closer bonds with their customers. They can outsource their product design, IT systems, and data analysis to third party specialists to rapidly acquire capabilities on these fronts. These banks should stress developing customer acquisition and cross-selling capabilities. They can even see themselves as pure sales offices, participating in the new competitive landscape in a more practical and less cumbersome manner.

4. Developing Seven Key Capabilities

As described in the previous chapter, different banks should choose their retail banking models according to their own strengths, weaknesses, and strategic direction. But no matter what model they choose, they cannot succeed without building series of basic capabilities. To be specific, we believe that retail banks
must follow the guiding principle of “the customer comes first” and build seven key capabilities in the next five years. (See Exhibit 17.)

4.1 Proactive Customer Acquisition and Lean Customer Management

Changing customer habits and expectations have rendered the traditional customer service model unsustainable. At the same time, however, new technology has provided new solutions for banks searching for ways to proactively acquire customers and manage them efficiently, allowing these banks to improve their customer acquisition and management capabilities. Some of these solutions include more proactively seeking out customers, improving customer relationship management with smart data, and creating three dimensional segmentations for customers.

Proactively Seeking Out Customers

Instead of waiting passively for customers to come calling, banks should seek to embed themselves into the daily lives of customers, proactively attracting them before they find the need to seek out a bank. For example, a bank can seek out the places or platforms where transactions for fast-growing consumption categories such as organic living, cars, luxury goods, or overseas financial products. Alternatively, they can provide solutions such as convenient transactions, bill payment, savings, and wealth management that make paying for basic necessities such as property management fees and social networking easier.

One example is a U.S. deposit platform called SmartyPig, which lets account holders share savings goals with families and friends through tapping into their social media networks such as Facebook and Twitter. They can also share the reward for reaching their goals with their family and friends through retailer gift cards.
American Express helps its small business customers through the “Small Business Saturday” campaign it has been running annually since 2010. Small Business Saturday immediately follows the annual post-Thanksgiving “Black Friday” sales and encourages all American Express cardholders to patronize small, locally owned brick-and-mortar businesses, with American Express offering $10 to $25 in installment credit for each qualifying bill. The company promoted the event through social network platforms like Facebook and Twitter, gathering millions of “likes” in a very short period of time. Over the next few years, American Express provided small businesses with a variety of marketing resources and promotional tools to help these businesses market themselves, including providing the first 10,000 small businesses to register with funding to run ads on Facebook, helping them to create their own Facebook page, guiding them in using the “My Business Story” tool to create a video commercial about their businesses, and then helping to put these commercials on social networks and Google. These programs helped American Express win over many individual and small-business customers, increased customer loyalty, and boosted the company’s brand recognition and reputation.

**Improving Customer Relationship Management with Smart Data**

To accomplish this goal, banks need to understand their customers and anticipate their needs. They need to have a good idea of their customers’ current stage of life and wealth and have a clear, detailed picture of their financial activities. That will allow the banks to match their products and services with their customers’ needs. Gaining these capabilities requires banks to enhance their digital tools, create more rigorous mechanisms for collecting and updating data, gain control over complete, uncondensed customer data, ensure the timeliness and the consistency of the data, and create a digital, easy-to-browse “single-customer perspective.”

**Three-Dimensional Customer Segmentation**

Ten years ago, retail banking customer segmentation didn’t even exist in China. Today, most banks follow the mainstream practice of dividing their customers by the quantity of their family financial assets into several categories including mass market customers, wealth management customers (or VIP customers), and private banking customers. But as customers in the same segment become more diverse in their behavior and preferences, understanding customers through the level of their assets is no longer adequate. New data tools have made it possible for banks to gain a deeper insight into their customers and thereby segment them more precisely. This is why in the future, customer segments for retail banking cannot simply be divided by asset tier. Instead, other dimensions such as demographics and behaviors must be considered to produce a more three-dimensional view of customers, segmenting them by gender, age, profession, hobby, risk tolerance, channel preference, and more.

A leading bank in Spain, for example, sorts its customers into categories such as football fan, golf fan, frequent traveler, luxurious lifestyle, and pragmatist. The company’s data analysis has revealed discovered that the older the football fan account holder is, the more he or she has deposited in the bank’s savings account, and the more he or she contributes, on average, to the bank’s profit. A 70-year-old football fan contributes three times the average rate to the bank’s profit margin, which is why the bank has targeted these customers as one of its most important segments.

**4.2 Effective Channel Coverage and Good Channel Experience**

When it comes to channels, most banks still limit themselves to branch transformation. Large state-owned banks and joint-stock banks have been attempting to transform their branches to stress sales for almost ten years, taking measures such as adopting a dining hall-style layout to make the environment more conducive to a sales pitch, increasing sales opportunities by devising new scripts for employees manning
the counters, and creating daily “quotas” for sales activities (such as phone calls and customer visits) that each account manager must fill. These conventional tactics have been moderately successful in the past few years, but their utility is rapidly waning as market conditions change. BCG believes that the next phase of transformation cannot focus solely on physical branches themselves but must also look to coordinate online and offline channels from a multichannel integration perspective.

What does multichannel integration really mean? It means adapting the bank’s channels to the natural preferences and usage habits of their customers, clearly redefining the roles and functions of each channel, then integrating them accordingly. Banks must also ensure that customers can shift seamlessly between different channels while receiving a consistent experience. To succeed in multichannel integration, banks need to create a channel blueprint that guides customers from end to end, assign different roles and functions to different channels according to the blueprint, create a corresponding system for managing information and operations, create an organizational structure and system for evaluations that is suitable for multiple channels, and more.

First, creating a channel blueprint that guides customers from end to end means identifying the different pathways that customers take on the various channels when conducting different business. The key to this step is gaining an understanding of the role each channel plays at the various stages of the customer’s actions and anticipating when customers may need to make a transition between which channels, and what that transition will be. It is especially worth noting that there may be different versions of this blueprint depending on the customer and the business, or depending on the actual situation and customer expectations. The blueprint could also appear as many different pathways that require the banks to thoroughly investigate through means such as researching the customer, to serve as the strategic basis for multichannel integration. Exhibit 18 is an example of a channel blueprint for a home mortgage product.
Second, assign different roles and functions to different channels according to the blueprint. Especially when comparing the current state of affairs and what customers expect, it’s possible to discover functional deficiencies in the channels and then adjust accordingly. For example, a common adjustment may include, among many other possibilities, stimulating customer demand through establishing more cooperating channels, emphasizing online marketing in order to increase the attractiveness of the product and spread customer awareness about the product, enhancing the sales and advisory experience at physical branches, realizing remote account openings, bolstering after-sale interactions and soliciting customer feedback through social networks.

Third, create a corresponding system for managing information and operations. The reason that it’s called multichannel integration is that the system can deliver a seamless transition and a consistent experience for customers, no matter which channel they are currently in. That requirement means that banks must equip themselves with a cross-channel unified customer information management system and delivery platform that can facilitate the sharing of information and the delivery of services across different channels. We will go into more details about how banks can accomplish this in Chapter 4.4, “Efficient Operations, Big Data Capabilities, and an IT Platform.”

Finally, banks need to create an organizational structure and system for evaluations that is suitable for multiple channels. The reality is that different departments often manage different channels. Branches, for example, are managed by regional headquarters. The digital banking department manages online and mobile banking. Operations manage the call center. And so forth. The scattered chain of command has led to channel division. Recently, some banks have launched efforts to establish a dedicated channel management department in an attempt to manage all channels in one place. These departments lack any actual authority, however, and often all these banks end up accomplishing is to add a coordination step on top of the current channel structure, making channel coordination even less efficient. To solve these issues, banks must stiffen their resolve to reform and transform and drive for actual multichannel integration through tactics such as establishing a task force, establishing an inter-department coordination mechanism, and adding channel coordination to performance evaluation.

In the case of French bank BNP Paribas, the bank established a multichannel integration strategy that centered on the three cores of online, call center, and branches. Out of these three, online channels and call centers process low-value transactions, while branches handle higher-value sales and consulting. The bank made use of tools such as channel blueprints and channel funnels to identify the journey that customers made through its channels, identified the key points that lead to customer churn, and took measures to improve these points. The bank also adopted a unified customer relations management system and back end to support the transitions that customers make between channels. In the end, the bank’s branches have found more sales opportunities, the bank’s income has grown at 1% above the market average, and the average income of the bank’s customers leads the market by a wide margin.

It’s true that as banks push for multichannel integration, transforming their current branches is still a dilemma for banks with a wealth of physical branches. BCG’s studies in the European and U.S. markets have found that the branch sales costs account for almost half of all bank operating costs. The situation is similar in China. Also, we can see our earlier discussion of the channel blueprint, regulatory requirements mean account opening is the step most dependent on physical branches. However, the release of the People’s Bank Of China’s Guiding Opinions on the Remote Opening of Renminbi Bank Accounts by Banking Financial Institutions (Draft for Comments), suggest strongly that before long, account openings will no longer be shackled to physical branches. A transformation of the role of these branches is imminent. Faced with narrowing profit margins and an all-new competitive landscape, it is of utmost importance that banks figure out how to
transform their wealth of physical branches from a liability into an asset. The following few steps outline how banks could start this transformation.

**First, banks must analyze and make plans for all of its branches.** A common phenomenon in the European, U.S., and Chinese markets is that 50 to 60 percent of bank branches contribute 80 to 90 percent of a bank’s deposits and income. In other words, nearly half of a bank’s branches are still very inefficient because of various factors, including location, staff, and business format. That’s why banks need to decide whether they already have enough total branches, whether the distribution of branches in different provinces and cities is reasonable, which cities need additional branches, and which cities are over-branched. Then the bank needs to identify the least efficient branches in its key cities and analyze those branches in depth before acting to increase efficiency by closing the branch, moving it, changing the business format, or changing personnel.

**Second, banks need to manage their business mix. A rational business mix is a still unfamiliar but very important concept for many banks.** To control costs and micromanage responses to different customer segments in different situations, banks in the future will consist not of a single general branch location format, but an organic combination of different branch formats. Some common formats, among others, will include flagship branches, general branches, specialized branches, community branches, and convenience branches.

- **Flagship Branch:** A large or mega-sized universal branch that serves all customer segments. Banks should build only one or two per city, normally in the center of the city where there is high traffic volume and a strong advertising effect. Its main function for people outside the business is to help promote the brand, while its main role inside the brand is to serve as the model for its branch modules, processes, service, and staff.

- **General Branch:** A large, universal branch that serves all customer segments. Banks should locate only one or two in each of the major districts of a city in geographically central locations with a high traffic volume, high business volume, and multiple needs. These branches serve as the central node for each of the districts in the city. Compared with flagship branches, they don’t have the same effect in promoting the brand, but they have strong overall service capabilities.

- **Specialty Branch:** Wealth management centers or micro- and small enterprise service centers are examples of a specialty branch. They serve customer segments whose needs are highly specialized and are usually placed where the customers congregate, for example in affluent communities and business districts with a high concentration of small companies. These branches provide highly specific products and services.

- **Community Branch:** Small branches that serve residents in nearby communities. They provide a few basic products and services and are usually placed in communities, supermarkets, and other places closely tied to customers’ daily lives.

- **Convenience Branch:** Small branches that serve customers who demand efficiency. They provide a few basic products and services and are usually placed in traffic hubs, large shopping centers, and other high traffic, simple-need locations.

Different business formats play different roles in the branch mix. In general, flagship branches and general branches are the “core” and “aorta,” processing complex transactions of all types. Twenty percent of a
bank's branches should be one of these types. Community branches and convenience branches play the role of “satellite” or “capillary;” they process basic, simple transactions and are the main means by which a bank can increase its branch presence within a certain region. These types should make up 70 percent of all branches. Specialist branches are necessary channel supplements that serve specific customers. They should make up 10 percent of a bank's branches. Despite the rapid development of online channels, they are not likely to replace flagship, general, or specialist branches. The function of these branches, however, will gradually shift from simple low-value transactions toward high-value consulting and sales. Community branches and convenience branches, on the other hand, will very likely gradually give way to online channels.

Different banks should determine their own mix of the five business formats, based on their particular customer segments and businesses in creating a differentiated branch system.

The business format mix for U.S.-based Wells Fargo includes four major categories: Serve older customers with a high reliance on branches and bank staff with conventional branches; serve customers that demand efficiency through convenience branches located in shopping centers; serve midrange to high-end customers with wealth management centers; and serve specialized customers with specialized branches such as mortgage centers and auto finance branches.

Spain based Banco Bilbao Vizcaya Argentaria (BBVA) had its eye on the future when it completely overhauled its branch system: The bank’s flagship branches provide advisory services for affluent individuals and emphasizes customer acquisition and brand marketing, stressing interaction, transparency, simplicity, personalization, and placing the needs of the customer at the center of the design and operations of the branch. The branch targets a “bank of the future” customer experience through its use of interactive sales devices, advanced digital technology, and an all-new management model. The bank's convenience and self service branches provide transaction services and rudimentary consulting to all customer segments, a sort of simplified edition of the flagship branch. Even though these branches are small and offer few capabilities, they retain the core design philosophy and technical equipment, which is a manifestation of the philosophy of the “bank of the future” whose experience is consistent across different business formats.

Some domestic banks are also coming around to the idea of planning their mix of branches and are beginning to build different business format branches. China CITIC Bank launched its first flagship branch in Guangzhou in March 2014. The branch layout is elegant and grandiose, built according to the brand philosophy of “wealth and happiness.” The brand has 17 standard modules that successfully divide the different functions of the branch and also serve as a model for the standardization of other branches. Intelligent queue and digital form pre-filing systems, as well as touchscreen marketing equipment help streamline waiting and business processes. At the same time, outside of the conventional business operations zone, the branch also has reading and coffee break sections that help enhance the customer experience. With the flagship store setting an example, it won't be long before other business formats take shape and become standardized.

Third, banks need to standardize and modularize their branches. Of all the business formats, flagship branches and general branches form the most complete set of functional modules. They should serve as the standard for other branches to emulate. Banks should use these types of branches as a starting point, then clearly define the different functional modules, specifying the purpose each module should serve and the tools, facilities, and personnel they need to serve this purpose, as well as their complementary modules and their position and the expected route of the customer inside the branch. Then, banks can mix
and match the modules most relevant to the different branches and their business formats to achieve an optimal combination of standardization and diversification.

### 4.3 Products and Services That Directly Address Pain Points

As we’ve already mentioned in Chapter 2, “New Products,” banks that want to differentiate themselves cannot focus on products alone. Instead, banks must discover the needs and pain points of their customers in finance and everyday life and offer a solution that directly addresses their problems. Retail banks must be able to truly help customers in their moment of need.

**First, retail banks must lay down a solid base of services.** According to BCG Global Consumer Survey on Digital Retail Banking 2014, more than two thirds of all retail banking customers still attach great importance to basic bank functions, such as whether transfers are convenient and free, whether branches are open for long hours, whether the lines are short, whether there are few forms to fill out, whether online banking is easy to use at the click of a button, whether it’s easy to get through to call centers and whether problems are effectively resolved, and whether lost or stolen debit cards are frozen and replaced quickly and whether the account balance is safe in the meantime. These seemingly simple everyday functions are precisely the ones that customers most frequently use; they form customers’ basic impression of a bank and are often an important consideration when customers choose a certain bank as their main bank.

**Building on this foundation, banks need to provide more personalized products and services that are geared toward the specific characteristics of their VIP customers.** For example, banks should mostly provide standardized products that are simple, easy to understand, reasonably priced, and highly transparent to their midrange to low-end customers who have relatively simple financial needs. For high-end customers and small and micro-enterprise customers with relatively complex financial needs, banks need to provide more comprehensive and specialized one-stop services.

ABN AMRO, based in the Netherlands, is committed to better serve mass customer segments through simple products and effective communication. The bank started by greatly simplifying its product lines, reducing home mortgage products from nine different types to one and at the same time reducing down payment choices from seven to five while cutting back the number of loan maturities from 14 to six. Second, the bank rewrote the product manuals and the conversation scripts for its sales people to ensure that 90 percent of the bank’s customers could easily understand the products. Through these simplification measures, ABN AMRO ensured that its sales staff could explain and recommend their products with greater clarity while giving customers better understanding of the bank’s products so that they could make a better choice while giving them a sense of participation in the financial decision-making process.

Charles Schwab is committed to providing the most suitable investment services for the general affluent public. Schwab found that the company’s customers have three common characteristics: First, they hope to receive a relatively comprehensive but not too complex asset allocation plan; second, they want reasonable fee structures (substantially lower than those of high-end customers); and third, they want timely discovery of any possible problems with their asset allocation and the corresponding ability to make adjustments. So Schwab has designed products and services specifically to address those needs. First, the company offers customers the choice of almost 20,000 mutual funds and helps them select eight to 12 fund products from the list to allocate their assets; second, the company offers customers low fees that amount to only 0.5 percent of assets under management every year—significantly lower than the 1.5 to 2 percent that
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competitors quote; third, Schwab provides quarterly reports to customers to help them analyze their own asset allocation and suggest how to make any necessary adjustments.

Finally, banks must get a firm grip on what moves the customer. The key is to devise products and services that address problems and pain points. The design and packaging of products must begin with their daily application and pain points. These products must be developed according to how they can help customers solve a problem. For example, by providing a home mortgage or student loan when the customer needs it the most, a bank reaches the customer at their moment of need. In the future, banks won’t just sell products: They will sell solutions.

4.4 Efficient Operations, Big Data Capabilities, and an IT Platform

The biggest obstacles that banks run into when they build an operational system, develop big data capabilities, and build an IT platform are not usually technical. Instead, resistance usually comes from the ideological and management side. Many banks still don’t realize that efficient, low-cost operations, superior data management and applications, and an efficient IT platform form the foundation for future development in retail banking. The customer insight, product innovation, streamlined processes, improved customer experience, and multichannel integration that we discussed previously would not be possible without the support of these delivery systems.

4.4.1 Operations

In our experience with clients, we’ve found that many banks still see operations as part of back-end processing, and their only requirement for operations is “don’t make a mistake.” The real risk, however, is that these banks still don’t realize that a well-polished operation is a source of core competitive strength in the retail banking industry of the future. It is an important means to establish an insurmountable differentiated advantage. The customer insight, product innovation, improved customer experience, multichannel integration and other improvements are not possible without the support of a strong system of operations.

In order to mold its system of operations into an advantage in retail banking, a bank must first accurately assess major developments in operations in order to plan ahead, and then persist in long-term and sustained investments. BCG’s experience on the subject and many years of real-world experience around the globe with businesses that transformed their operations have proven that there are five major trends that will affect how operations will develop in the future:

- **Toward online**: The use of fingerprints, digital signatures, digital seals, and other technology will break the monopoly that paper has on customer interaction; video conferences, workflow systems, remote auditing and authorization will replace paper-based internal processes. As the office increasingly become paperless, manual processing will be shifted online and standardized, thereby improving the automated straight-through processing capabilities of operations.

- **Toward mobile**: Technology and media such as the mobile internet, smart phones, and tablet PCs are shifting the site of the customer experience to the mobile front. The streamlined process of this trend brings with it many new opportunities, such as using pictures taken by smart phones to replace the collection and distribution of paper IDs; using QR code scans to automate the access of some information; or even using the combination of various mobile devices to free certain transactions and processes from counters and branches. Account managers for a large bank in India, for example, can use their portable mobile workstations to take processes such as account openings and signing up for a credit card to the customer.
• **Toward transparency:** In the past, bank operations were a “black box” for customers. Many measures taken to optimize operations are separating customers from operations, such as dividing work into a front- and a back-end. Nowadays, as the Internet increasingly connects everything, customers have a growing need for participation, transparency, and control. Some banks have seized upon this change and applied it to their operations. For example, one foreign bank offers its high-end customers customized online banking; the online banking interface can show the progress of the customer’s various requests in process, and this progress is tracked by the operations management department to encourage continuous operational improvement.

• **Toward cloud:** Banks in different markets have experienced or are experiencing a large-scale physical concentration as they transform their operations. Today, the staff in the back-office centers of some foreign banks numbers in the tens of thousands. In China, many banks have already created large-scale back-office centers. While these centers have improved efficiency and made management more consistent, this physical concentration has also created difficulties. In some cases staff must relocate. In others, managers struggle to supervise a large number of employees. But technological advances have enabled new ways to concentrate. After achieving some degree of physical concentration, a bank can organize its scattered operational resources through data aggregation, synchronized workflows, project management, and other methods of “virtual concentration,” effectively “cloud-pooling” its resources. Here “cloud” refers to both technology and ideology.

• **Toward a market environment:** The banking industry is currently going from a closed system of players towards an open market, from a complete value chain toward dividing labor along the chain, from basic infrastructure toward a cost center or even an adjustable profit center. China's financial outsourcing market is still at an initial stage of development, but the many innovative companies born out of the new wave of Internet finance undeniably bring new opportunities to operate in a market environment and divide labor along the value chain. For example, some start-up financial supermarkets or price-comparison websites can provide data collection and initial auditing services for banks in the loan process.

**Second, when designing pathways for a financial institution’s operational system, the institution needs to find an area to “win quickly”** and reap results as early as possible, instill trust and confidence throughout the institution for operational reform, and earn resources to invest in additional reforms through cost savings or improved sales.

In the Internet age, there are a growing number of ways to optimize operations quickly at a low cost. For example, we referred earlier to the mobile workstations with which an Indian bank equips its account managers. The workstations can help them complete an entire operations cycle at the site of the sale by means of electronic forms, photographs of the customer’s ID, remote authorization, electronic signatures, and more. These kinds of measures are not very costly and can be quickly implemented, and they not only can help improve sales efficiency and improve customer experience but also help reduce much of the post-sale paperwork, such as the transfer of forms and materials, data entry, and review. At the same time, they also help to improve data quality.

Many banks in China have also begun to take tentative steps in this area. For example, one joint-stock bank in China has begun promoting a paperless counter at which the bank places an LCD screen at the retail counter and customers can either fill out forms electronically or make oral requests. The processing information is displayed on the LCD screen, customers can sign directly on the screen with a stylus, and the entire process, unless specifically requested by the customer, will not produce a single piece of paper.
Third, financial institutions should raise their end-to-end process management and optimization capabilities as quickly as possible. One of the problems with the current practice of banking “by department” is that process management is divided, and the way this is reflected in the market is that the bank does not put the customer first. In customers’ eyes, the delivery process begins with their purchase decision and ends with their need being satisfied. BCG studies have found that in many banks, problems occur not in the individual processes of each department, but at the point where the processes of different departments intersect. At these intersections there is a tremendous amount of repetitive labor and waste of resources. Redundant forms, repeated requests for the same customer information, and cumbersome authorization procedures are all symptoms of this problem.

That’s why banks need to scientifically optimize and manage the end-to-end process. Take, for example, BCG’s “lean optimization” methods, developed through many years of practical project application. Banks need scientific management tools, such as a process flow model and separate “sales products” and “process products” in process management. Some new products will require a completely different delivery process that would require only small adjustments to the sales process. Finally, banks must protect the organizational integrity of end-to-end process management. When BCG helped a large foreign multinational bank establish end-to-end process management capabilities, one of our suggestions was to establish a “central process management department” for the retail process line. The department is comprised of team members with many years of experience optimizing processes and includes business specialists, operations specialists, IT specialists, former consultants, process optimization specialists, and more. The team paid close attention to staff turnover and regularly rotated team members with sales and IT in order to avoid an “absence of expertise.”

In addition to optimizing their business processes, financial institutions should also look toward their core management processes, including product design, major purchases, and more. Slow decision-making and inefficient internal processes often hinder the establishment of effective operational system. Take product design, for example. BCG helped a leading German-based multinational bank optimize its internal product research and development process. In the newly optimized process, operations participated in the product design as a process specialist and provided opinions and suggestions from a process and operations standpoint, helping product design remain grounded to reality and ensuring the efficient delivery of the product after launch.

**4.4.2 Big Data Capabilities**

Data has always been a strategic resource in the competitive landscape of the finance industry. As the ability to store, process, and analyze data advances by leaps and bounds, there is an explosive potential to mine value from data and change the business model. Big data has become a key concept that continues to gather momentum. But financial institutions, which are sitting on a treasure trove of information, have not taken advantage of big data. BCG’s many years of project experience have taught us that financial institutions utilize only 34 percent of their data. There are vast “data frontiers” that remain unexplored, with their accompanying opportunities lying dormant. To find out why, BCG conducted a Big Data Maturity survey among typical financial institutions. The results show that it takes seven major steps to transform data into value. Of those seven steps, “permission and trust” and “coordination” are the key bottlenecks. (See Exhibit 19.)

- **Step 1: Data collection.** Build a data ecology highly relevant to the business by reorganizing internal and external data.

- **Step 2: Permission and trust.** Get the data owner’s permission to use it and agree that the company will not disclose personal information while organizing, analyzing, and applying the data.
Step 3: Storage and processing. Build an IT framework with big data storage, processing, and analysis capabilities.

Step 4: Scientific data. Research and develop or purchase appropriate tools to analyze big data from a business-need perspective.

Step 5: Coordination. Accurately dissect business needs into specific questions and guide the technical and data analysis departments to full infrastructure and data analysis.

Step 6: Action insight. Interpret the results of data analysis and translate them into a plan for action, such as researching and developing a product, optimizing customer service, designing an innovative marketing strategy, and so on.

Step 7: Embedded change. Normalize the valuable ideas and actions hidden in the mined and transformed data into the systematic mechanisms of the organization, expediting optimization or even a breakthrough innovation of the entire business model.

Big data capabilities are incredibly important, but how do we set about building them? BCG believes that there are three keys to building big data capabilities: team, mechanism, and thinking, or “TMT”.

First, build a team. Even in the era of big data, people still play the biggest role in value creation. Data is derived from people and serves them. Financial institutions actually have numerous talented people with data management and analysis capabilities, but the onset of the big data era requires them to accomplish different things. They must be able to handle cross-disciplinary interactions among business, data, and
technology. In the future, financial institutions will still mostly cultivate their big data personnel from within, which is why building a cross-discipline big data team has become a key success factor. In terms of the team’s organizational structure, we’ve learned from our observation of the industry that companies with outstanding big data capabilities continuously adjust their big data team’s organizational structure. They create a task force to form an independent unit in the early phases when it’s necessary to rapidly upgrade data and technical capabilities, then break up this team up and spread team members throughout the entire business during the knowledge-gathering phase. That helps these companies dynamically improve the capabilities of their big data specialist team. In addition, financial institutions cannot overlook big data capability-building throughout the entire organization, because realizing the data-to-value chain will require everyone’s active participation.

Second, institutions must form a safeguard mechanism. Big data disrupts business as usual in a traditional financial institution. The first thing big data signifies is not one big opportunity, but many small opportunities. Only institutions that rapidly capture these small opportunities at low cost can in turn generate big value, and discover big opportunities. Discovering the value in these many small opportunities require a flexible, rapid response and disciplined workflows which is why it is very important for traditional financial institutions to “build in tandem.”

On one hand, financial institutions require rigorous control mechanisms in order to ensure safe, orderly, and risk-controlled proceedings. Such mechanism include, among others, creating compliance guidelines to ensure that data application is always aligned with customer privacy; creating strict data governance mechanisms to manage data access rights within the organization; and establishing clear lines of accountability for data management.

On the other hand, financial institutions need flexible workflows and differentiated evaluation systems to make trial and error possible. For example, evaluating the success of a cross-selling plan produced through data analysis should not fall to more data analysis. Instead, the evaluation should be based on quick implementations in trial locations. The institution must respond quickly to the results of the trial, making a call whether to adjust the plan or end the trial. In addition, “one size fits all” evaluation systems will have serious problems adapting to this framework; trial-and-error and scale-up phases need to be evaluated with different standards and incentives.

Third, institutions must change their thinking. The various reforms that big data requires on the management level is actually a challenge to traditional thinking in financial institutions. Instead of emphasizing cause and effect, they need to accept correlations and act on them. Instead of relying on experience, authority, and hierarchy for decision making, they must learn to “let the data speak.” Instead of dominating the entire value chain, they must build an open ecosystem. Without a doubt, these changes involve changing mindsets and touch upon the very logic behind top-level strategic thinking in many financial institutions. It takes time to change mindsets and requires a data strategy for the entire institution backed by clear support from senior management as well as many test beds inside and outside the organization, marching toward the goal in “quick little steps.”

4.4.3 IT Platform
Revamped customer experiences, improved operational process flow, and innovative data technology place new demands on the IT platform for retail banks. Banks need to respond energetically to address this issue, adjusting their IT platform along four dimensions: IT strategy, IT application architecture, IT infrastructure, and IT governance.
First, develop a forward-facing IT strategy that changes the role of the IT platform from support and security to value creation. In the digital age, IT needs to be more closely integrated with the business side, which is why IT’s role will change fundamentally. IT will not only be an effective security blanket that supports business but also an important force driving business innovation and value creation.

In devising an IT strategy, the chief technology officer needs to strengthen the link between IT and business. For example, an IT strategy committee that periodically organizes joint meetings on innovation with the CEO, COO, business unit leaders, and the IT department head participating can clarify goals and directions for technology, ensure the forward-looking nature of the IT strategy, and keep IT strategy consistent with business strategy. At the same time, the creation of a business strategy for the company should not move forward without insight about technology from the chief technology officer and trial-and-error experimentation by the IT department.

Second, institutions should create a next-generation IT application framework to support the goals of digital transformation of the front end, reconstruction of the middle core, and big data innovation at the back-end.

Digital transformation of the front end means building a more open, compatible and cooperative front-end omni-channel system. The goal that ties this system together is to provide a better process experience for the customer and ensure the consistency of information, products, and services across channels. At the same time, digital technology should drive branch transformation. Opportunities include:

- Providing account managers with mobile apps that support social networks as well as the back-end big data analysis platform;
- Arming branches with new generation equipment. Super ATMs or VTMs can help customers handle transactions automatically and communicate with customer service representatives in real time through the cloud, migrating more transactions away from the counter;
- Increasing the use of big data in branches. Take full advantage of the help big data provides in customer insight, precision marketing, and decision support with the help of tools such as branch locators, customer insight engines, and more.

At the same time, banks need to build a next-generation online banking platform, an internet finance platform, and a digital ecosystem:

- Next-generation online banking: Increase the emphasis on innovation in mobile banking and WeChat banking; create direct banks and accelerate financial disintermediation;
- Internet finance platform: Learn from internet finance experiences, build new financial platforms such as internet wealth management, P2P, and crowd-funding;
- Digital ecosystem: Leading retail banks can take advantage of their own lead in resource integration to build an e-commerce platform or cooperate with internet companies to gain access to application scenarios in daily life.

Retail banks also need to reconstruct their middle core. Digital transformation at the front end and a creation of an efficient system of operations both require rebuilding the middle core of the banking system.
around the themes of openness, flexibility, and responsiveness to the customer. The main functions and characteristics of the framework should include:

- Operational customer relationship management: Build customer profiles, refine the management of marketing, sales, and service processes, and support a change in business model from account-focused to client-focused;

- Highly configurable product factories: The main purpose is to improve the flexibility of the product configuration so it can support innovations in and differentiated pricing of financial products as well as respond more quickly to changes in the market;

- Service-Oriented Architecture (SOA): Create a component-based banking infrastructure core that supports the core system and external Internet channels, forge effective links to the system of collaborative partners, and build an open platform architecture.

**Bank back-end construction should focus on big data-based platform and analysis capabilities.** Seize upon the advantage the banking industry enjoys in data resources to build a big data platform and analysis capabilities and effectively support innovations in customer acquisition, marketing, product and pricing, risk management, and operations optimization. Typical application scenarios include:

- An analytical customer relationship management (ACRM) platform: Reorganize customer data and analyze customers for insight, laying the foundation for refining customer loyalty management, precision marketing, cross-selling, and smart services;

- Data applications in products, pricing, and risk management: Take advantage of big data and cognitive computing capabilities to achieve an accurate price based on different scenarios, and apply the data in risk identification and modeling.

For example, CBA has carried out a customer-centric “new bank” plan since 2003 with the goal of achieving the digital transformation of the bank’s channels and operations. The bank went through three main phases:

- First phase (2003-2006): Upgraded capabilities in secondary and self-service channels, optimized customer service. Key initiatives included creating an integrated CRM system across all channels; achieving a unified “customer perspective”; establishing a “contact history log” and a list of current tasks; generating sales leads and customer referrals.

- Second phase (2006-2010): Achieve digital transformation of the operations platform, lowering costs and improving efficiency. Key initiatives included building an integrated sales and service system across the online banking, physical branch, and financial advisor channels; reducing paperwork from the branches by going digital and automating tasks; creating “60 minute” mortgage loan processing services; providing a full range of online banking products and services.

- Third phase (2010-present): In step with the upgrade of the core platform, provide real-time banking and innovative online banking with the goal of moving more than 40 percent of customers to online banking. Key initiatives include providing 24-hour real-time banking such as account opening and real-time transaction settlement services; establishing a mobile banking business; utilizing “augmented reality” in the bank’s property search and property guide app; setting up a Facebook branch, and more.
In 2010, after realizing benefits from transforming the front and the back ends, CBA shifted its focus to rebuilding the fundamental core of its banking system to drive further transformation of the bank’s business model and deliver on its brand promise. The bank’s main objectives included tasks such as optimizing core systems, improving process automation, and deriving customer insights to support decision-making. Rebuilding the core of its banking system helped CBA create a differentiated service platform that paved the way for a vastly improved customer experience in several respects:

- Instant processing of transactions, service requests, and product applications;
- Completion of products within a week, with launches in small test markets and adjustments according to feedback;
- Real-time execution that made process optimization programs outdated;
- Big reduction in the cost and risk of making changes.

Third, banks should deploy a combination of private and public cloud when they innovate their IT framework. Cloud computing is a major revolution for the IT industry: It can help reduce IT development cycles, simplify IT structure, and optimize IT spending, significantly changing the information delivery process for traditional companies. Company CTOs can design more forward-facing and reasonable plans for IT structure utilizing a combination of public and private cloud.

Considering that core systems demand a high level of data security and must be able to handle very complex transactions, CTOs want the ability to develop, operate, and maintain core systems from their own data centers. That’s why banks need to increase their commitment to the private cloud and increase the number of virtual data centers, servers, storage, and other IT resources to upgrade the capabilities of their basic infrastructure.

In addition to overhauling their private cloud systems, CTOs need to go one step further and take advantage of public IT resources—in other words, the public cloud—for front-end digital applications to support “more, faster, better, and cheaper” new business expansions and trials. In the public cloud market, Infrastructure as a Service (IaaS) cloud infrastructure and Software as a Service (SaaS) cloud software are the most promising segments and are especially well suited for application modules with mature solutions and data that is not very sensitive and do not require a high level of security. Some examples of modules include official websites, portals, mobile apps, and CRM systems.

Fourth, banks need to learn from Internet companies and establish an IT governance model that adopts the motto of Internet companies — “put the product manager first, make quick, incremental improvements, and develop in iterations.” In the digital age, the business side should not be dictating the direction of the IT framework on its own; the IT department must take a greater role in innovation and create more cohesive collaboration mechanisms with the business side to strive for the effective materialization of innovation together.

As for the IT platform, banks should shift from the traditional “waterfall” model of development and, again, follow the lead of Internet companies: “Put the product manager first, make quick, incremental improvements, and develop in iterations.” At the same time, banks need to think about better ways to motivate and engage staff to obtain their buy-in and become more productive. They also need better
ways to attract, nurture, and retain talent. It will also be necessary to introduce competitive performance evaluation and incentive mechanisms and create a culture where it’s OK to experiment and OK to fail.

4.5 Pricing and Prudent Risk Management

As interest rate liberalization in China continues to move forward and heighten competition, pricing capability will be an important tool for retail banks of the future to enhance revenues and ensure profitability. In addition, as economic growth shifts gears and the financial risks of certain industries are fully exposed, it will be no longer tenable to simply rely on scaling-up by gathering as many assets as possible; the risk management and compliance management capabilities of a bank will also be critical.

4.5.1 Pricing

There are three things to consider when establishing integrated pricing capabilities. They are: setting the right pricing strategy and pricing model, ensuring price realization, and promoting differentiated pricing.

In terms of **setting the right pricing strategy and pricing model**: The key to interest rate pricing strategy is to benchmark against the market average rather than the market high. BCG’s experience with past cases has shown that even though there is a relatively strong correlation between net inflow of savings and a high interest rate, those who set a high rate do not necessarily dominate the market. In Exhibit 20, the left-hand chart shows the correlation between the size of the savings pool at a bank and the difference between the bank’s interest rate and the market average interest rate; the chart on the right shows the correlation between the size of the savings pool at a bank and the difference between the bank’s interest rate and the highest interest rate in the market. We can see that in the left chart, there is a very obvious positive correlation within a certain range between an interest rate that’s higher than the market average and an increase in savings pool size. Beyond that range, however, no matter how high the bank raises its

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**Exhibit 20. The Key to Savings Account Pricing Strategy Is to Compare with the Market Average, Not the Market High**

<table>
<thead>
<tr>
<th>Daily deposit net inflow volume (millions of Euros)</th>
<th>Daily deposit net inflow volume (millions of Euros)</th>
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<td><img src="image" alt="Exhibit 20" /></td>
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**Strong correlation between an interest rate that’s higher than the market average and an increase in savings pool size...**

**but weak correlation with the price difference between the bank and the market high**

Source: BCG project experience.
interest rates, the amount of net savings inflows levels off. In the right chart, there is no obvious correlation
between the interest rate differential on the horizontal axis and the size of the savings pool on the vertical
axis. This is why pricing strategy should not simply target as high an interest rate as possible, but instead to
discover the most sensitive and effective range of rates by sniffing out market dynamics and gaining insight
into customer preferences.

After deciding on a pricing strategy, banks need to create an appropriate pricing model. The model should
not be too complex, and it’s possible to start with a basic cost-plus pricing model. The cost-plus model wants
to ensure that first and foremost the price of the product will cover the bank’s various costs, including
the cost of capital, the cost of managing liquidity, operational costs, and risk cost. To create an accurate
model that doesn’t simply add all the costs together it is necessary to first gain a clear understanding of the
cost components and distribution of a product and discern what’s driving each cost and whether one cost
affects others in order.

Even equipped with scientific pricing strategies and models, banks cannot necessarily ensure price
realization. During the actual sales process, to better attract and retain customers, account managers
often prefer to give customers the biggest discount possible, which renders the pricing model ineffective in
practical implementation. That’s why price realization management is an important component of pricing
capability. Price realization management includes the four measures of setting guidelines for discounts,
discount quota management, monitoring price realization, and strengthening incentives and training for
sales staff.

Setting guidelines for discounts means defining clearly for both sales staff and customers the types of
discounts and the customers who qualify for them. The bank should explain why qualifying customers
enjoy this discount, spell out the period the discount is in effect, and improve the accuracy of the various
discount ranges through the use of auxiliary calculation tools. This is the first step towards price standards
for sales staff and price transparency for customers.

Discount quota management is aimed at putting a limit on the number of discounts award and controlling
the average price of the product to keep the pricing model verifiable and prices comparable. The use of a
quota must be confined to staff or branches within the same region, and different discount authorizations
should be given to staff of different levels. At the same time, the bank needs to establish audit procedures
to prevent indiscriminate and mistaken use of discounts.

The goal of monitoring price realization is to maintain the attractiveness of the price through real-time or
weekly monitoring and using appropriate tools to update the scale and percent realization of discounts.
This kind of monitoring can help banks identify and intervene with sales staff with abnormal patterns of
discount use as well as adjust their own prices in real time according to the average market price and the
prices of their competitors.

The core idea behind strengthening incentives and training for sales staff is to add sales profit margin
to their evaluations. Simply emphasizing revenue and volume can easily lead the sales staff to misuse
discounts and disregard the importance of profit margin. At the same time, banks should help staff gain an
understanding of the accurate pricing products and train them to be more versatile to reduce the reliance
on price during the sales process.

Differentiated pricing can also be referred to as personalized pricing, which means setting the most
appropriate price based on the customer’s characteristics, stage in life, and price sensitivity. This kind of
precise, personalized pricing requires the support of a massive quantity of data and analysis. For example, we can judge how close customers are with their banks through the total amounts transferred out of their bank account and the total number of transfers. A loose relationship means there is some reason that the customer must use related services from the bank (a payroll card for example). Such customers have relatively little influence or control over bank pricing, which grants the bank more pricing power. Another example is a customer who just began making relatively small savings deposits. These customers usually just entered the workforce or belong to the younger generation, who prefer spending to saving. Customers at this stage of their life are usually less price-sensitive.

Of course, retail banks cannot build a differentiated pricing model overnight. They should start with a simple and practical pricing mechanism, discover the cost structure and cost distribution for their products and services, gain insight into their customers’ preferences and sensitivity to price, and use data to calculate, cross-examine, and ensure price realization, thereby gradually building pricing capability.

4.5.2 Prudent Risk Management
Under the new normal, banks should tackle risk management and compliance from the following four angles: Decide on a clear risk control strategy, match risk control resources, optimize risk control execution, and improve compliance management.

A clear risk management framework is required to set and execute a risk control strategy. In this framework, it is important to clarify the risk control duties of the board of directors, management, the risk control department, and various business units. It’s also important to establish a unified risk control culture and standards. Then, with the bank’s mid- to long-term development as the underlying goal, the bank can simultaneously set a risk strategy and a business strategy and establish a periodic circular feedback mechanism linking risk tolerance and strategy.

In the future, as interest rates are liberalized, banks must shift from passive capital management and asset allocation to active asset-liability management. To accomplish this goal, banks should keep an eye on and manage liquidity, view liquidity as a scarce resource, and proactively seek to acquire low-cost sources of capital, promote matching the cost of capital to return on assets through internal pricing, and also take the initiative in modeling different scenarios to help themselves cope with market pressure or uncertainty.

Retail banks should also make use of advanced analytical modeling tools and first-class risk data infrastructure to step up their data collection, data storage, and data verification and optimize risk control execution, which will enable them to rigorously evaluate asset quality. At the same time, they should build advanced credit auditing tools, take a forward-looking perspective and combine it with industry expertise to gain an aggregate view of the customer’s complete risk profile and more.

Under the new normal, operating in compliance with the law is an important safeguard for commercial banks seeking to balance business development and risk management. To improve compliance management, retail banks not only need to strengthen their overall compliance functions but also make sure all bank employees are in compliance in their daily business activities, thereby unifying macro- and micro-compliance.

We’ve also learned that pragmatism is the most important thing in risk control and compliance. Some good practices include:

- Maintaining close communication and cooperation with regulators and primary stakeholders;
• Placing risk and audit roles under the direct control and oversight of senior management;

• Equipping the business department responsible for profit and loss with its own risk identification and reduction capabilities as well as control over the business unit. The department also needs to work closely with the risk control function;

• Focusing on the front line instead of management. Branch managers and call center managers are the ones with a true understanding of the problem;

• Creating efficient and practical initiatives: Do not leave things at the conceptual level and have people “check things off” or read a few regulations. Rather, only when you implement at the operations level can you make a precise diagnosis and truly resolve any risks discovered;

• Changing employee behavior by changing environmental factors such as KPIs, motivation, and training;

• Creating a very efficient risk control culture: Every employee should have the mindset and the ability to proactively carry out a risk-reward assessment. This can be done by, for example, adopting forward-facing risk reduction initiatives, frontline accountability, and clear decision-making authority;

• Tightening and increasing the complexity of existing oversight and monitoring mechanisms if some systematic incentives within the organization can induce inappropriate behavior in employees (such as very high returns for individuals in the capital markets or investment banking sectors);

• Setting comprehensive and end-to-end standards, from product design to sales and redistribution to ongoing customer management. (See Exhibit 21.)

4.6 Flexible Organizational and Management System

In the course of researching and writing this report, we interviewed a total of 30 professionals in traditional financial institutions. Most of those we spoke to said that the main difficulty with transforming and upgrading the retail banking industry usually does not lie in strategy or direction, nor is it technology or capabilities. Instead, it’s the system mechanisms and governance that pose the biggest issues. Retail businesses are scattered throughout a bank’s organization: Retail business is mainly governed by the retail department, but at the same time private banking is responsible for high-end customers, electronic banking is the responsibility of the electronic banking or IT department, branches are managed by local divisions, credit cards have an independent center, products need the support of the interbank finance department, processing requires the support of operations, and so on. This fragmented state has made it very difficult to manage and coordinate the retail bank. That’s why streamlining the organizational structure, matching talent with resources, and improving the flexibility and the adaptability of the organization are key to transforming, upgrading, and realizing profitability at retail banks.

**Banks should take a step-by-step approach to establishing vertical management of retail banking.**

An ideal retail bank organizational framework requires a large retail unit, with a single president or vice president responsible for all departments under the unit to ensure internal coordination and collaboration. In this unit, the core concept is to build vertical lines of management around different customer segments, while products, channels, and operations are departments that support all these lines by customizing different product mixes, channel mixes, and business processes for different customer
segments on a unified platform. This makes the overall process professional and promotes the realization of modularization.

Of course, traditional branch-oriented organizational structures add a great deal of complexity to the implementation of this kind of a framework. That’s why, in the short run, organizational restructuring requires clear allocation of authority, responsibility, and interest between the local division and the retail unit. Banks can consider starting with relatively new business lines such as private banking and direct banking that do not heavily rely on local divisions and gradually move forward with adjustments to the organizational framework.

As for matching talent with resources, the transformation of the retail bank is an amalgamation of the traditional with the innovative. This is why banks not only need to keep on nurturing and retaining talent in the financial profession, but also need to attract cross-sector talent from industries such as the Internet, data, and technology, and provide a foundation for melding and cooperation among different talented people through improving the flexibility and adaptability of the organization.

To achieve the goal of transformation, it is also essential to invest in talent, channels, systems, and operations. For example, founding a direct bank may require initial investments of hundreds of millions of
renminbi, while comprehensive optimization of operations and the creation of a large operational system will also require significant investment. This reality requires bank decision-makers to turn themselves from managers into investors focused on long-term value creation for the banks. They will also need to use a series of standardized principles and criteria (such as strategic importance, return on investment, risk of loss, and more) to choose what is the most appropriate focus for their business and pool the bank’s resources accordingly to prioritize development.

The organizational framework for retail banks need to be more flexible and adaptable to adjust to the new normal and new environment. For example, banks can learn from the organizational structure of Internet companies and stress a “plug and play” modular framework—that is, splitting a large organization into many small organizational units (such as a product innovation team), where flat or even networked organizational structures can be applied. They can also highlight decentralized decision-making and allow information and knowledge to be shared rapidly within the organization, creating a sense of equality within the organization. From a culture and values point of view, they can emphasize organizational unity through shared values, motivate individuals with clear and reachable goals, and encourage open, curious, confident, fun, and social cultural elements and mindsets. From a process and tools point of view, they should not focus overly on process management or set too many rules and regulations, but rather motivate through vision and goals and emphasize autonomy. In terms of financial planning and budgeting, they should concentrate on trends and continue to make adjustments rather than focus on individual performance indicators.

4.7 Cross-Sector Ecosystem Integration

Under the new normal, companies from closely related industries or even from completely unrelated industries will suddenly invade a particular market to compete for customers. This sort of “cross-sector war” or “coverage war” has made it more difficult for individual companies to survive within an industry. Because individual institutions are limited by their heritage and traditions from becoming do-all or be-all companies, they must participate in or create an ecosystem to expand the boundaries of their advantages and capabilities—and that’s how coverage wars break out.

The ecosystem is a brand new concept and a brand new business model for traditional financial institutions. To become an ecosystem integrator, banks must first create a core platform, then promote diversification on the platform, improve the rules and mechanisms of the ecosystem, and establish a business model that puts others before oneself.

First, banks need to create the core platform. The company needs to take an overall look at its core internal competitive strengths and external market demand and decide what kind of business will serve as the foundation for the core platform as well as what role will the bank play in this ecosystem. The questions, in other words, are “what will we do?” and “what won’t we do?” Based on this core platform, banks also need to promote “species” diversity in the ecosystem and clarify collaboration partners and what role they will play in the ecosystem. Leading an ecosystem or participating in a commercial ecosystem will allow banks to gain access to resources outside the boundaries of its own institution and organization. That’s why linking and working with customers and different participants in the ecosystem, such as infrastructure suppliers, product suppliers, service providers, data analysis providers and more, through the core platform is an effective way to break through the constraints of limited resources and capabilities when facing cross-sector competition and coverage wars.

Yu’e Bao’s success is predicated on the perfect combination of e-commerce customer experience and financial product expertise; Wanda’s goal in collaborating with Tencent and Baidu is to take advantage
of third party resources and data to link online and offline customer experience; Ping An’s “Wanlitong” loyalty program works with more than 300 external e-commerce merchants and 150,000 external brick-and-mortar stores to activate its bonus point-based ecosystem. These examples all reinforce the idea that the success of an ecosystem requires mutual support and cooperation between the core company and a diverse array of external supplementary products.

Next, banks need to improve the mechanisms and rules of the ecosystem. The mechanisms and rules of an ecosystem are key to the effective operation of the system. The difference between an ecosystem and a traditional commercial environment lies within a precise system of rules and mechanisms that effectively encourage interaction between multiple participants, deal with complex issues that arise when participants compete with each other in various ways, and resolve disputes and conflicts of interest that may arise between participants during the course of a collaboration or a transaction.

- **Technical rules**: Rules that provide unified specifications, open interfaces, and resolve technical conflicts. For example, in a collaboration between a bank and a data company, there must be comprehensive technical specifications for the interface between different information systems as well as strict data sharing and usage policies that ensure customer privacy and information safety while retaining effective application of the data.

- **Interest distribution and conflict resolution mechanisms**: Apple has an all-inclusive profit sharing mechanism with its large number of parts suppliers, audio, video, and book content providers, application developers, and operating partners, ensuring that all participants in the ecosystem can win together. In terms of systematic self-governance and conflict resolution, Taobao has comprehensive buyer and seller ratings, evaluations, and complaint mechanisms that help maintain a stable and autonomous platform.

Third, ecosystem integrators need to establish a business model that puts others before themselves. This is especially important at the initial stages of an ecosystem, when the integrator often needs to compromise to attract participants and strong partners. Consider: Sony actually released an ebook reader before Amazon, but it ultimately went nowhere. The main reason is that Sony, unlike Amazon, did not choose to sacrifice part of its profits to sell e-books at a loss to attract readers and increase consumer reliance on e-book readers. Amazon also created a digital copyright management system to protect publishers that joined its e-book ecosystem, securing their interest in unprecedented ways.

The vitality and prosperity of an ecosystem cannot depend solely on the strength of the core platform. It also depends on the growth and development of different participants in the system. The core platform, as the integrator, bears the responsibility for helping other participants to develop together along with the entire ecosystem. For example, through its Taobao University, Alibaba offers classes on how to open a store, marketing and promotion, logistics management, transaction credibility, customer management, supply chain, company innovation, and more, helping sellers on the platform improve their business management capabilities. At the same time, Alibaba provides small loans to sellers in need of expansion capital. By helping and nurturing sellers and guiding merchants on the platform towards healthy competition, forming a well ordered online market, Taobao has also managed to increase confidence from the buyer side and promote prosperity throughout the entire e-commerce ecosystem.

4.8 Reform Management: How to Realize the Transformation

As we can see from the seven capabilities necessary for a retail bank, the transformation of a retail bank
does not entail rebuilding from the ground up but instead making changes and innovating while respecting and effectively utilizing resources at hand. This process, however, inevitably will require overturning some existing ideas and practices. That’s why it is important to properly deal with the relationship between tradition and innovation, existing businesses and new frontiers. BCG’s tools to manage reform, based on the theme of realizing transformation, propose four levers for reform management: Special mechanisms, progress management, leadership buy-in, and organized participation. (See Exhibit 22.)

**Special mechanisms**: Successful progress in transformation requires an explicit responsibility structure and a clear management and control framework. It’s possible to create a special project task force that is responsible for managing all aspects of the project. At the same time, management should make explicit the responsibilities, authority, and interests of various stakeholders within the organization as well as the timing and form of their participation. It should make explicit the conflict-resolution mechanism during the transformation process.

**Progress management**: Management should first set clear transformation goals and standards for judging the success of the transformation. It should then prioritize the different actions and measures taken during the transformation process. It should also control the transformation process through the use of a series of management tools such as milestones, periodic reports, and a progress examination mechanism.

**Leadership buy-in**: Leadership is ultimately responsible for the transformation, which is why leadership must fully understand, agree with, and value both the goal and the method of transformation. It is vital for leadership to invest time and energy in the transformation process as well as maintain a unified front.

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**Exhibit 22. Reform Management Tools**

- **Special Unit**
  - Clear lines of responsibility: special task force
  - Clear management and control framework: clarify responsibilities, authority, and interests of various stakeholders during the reform process as well as the timing and form of their participation and the mechanism for resolving conflicts

- **Leadership Buy-In**
  - Leadership must fully understand, agree with, and value the goal and personally move the process forward
  - Leadership must be fully invested
  - Leadership must maintain a unified front

- **Progress Management**
  - Set clear transformation goals and evaluation standards
  - Prioritize different actions and measures
  - Control the transformation process with the use of management tools

- **Organize Participation**
  - Engage and train employees
  - Highly transparent process and information
  - Gather employee opinion leaders
Organized participation: The transformation process often involves every member of the organization, so it’s necessary to engage and train on a large scale to ensure that employees have a proper understanding of the background, goals, and process of the transformation, giving everyone the ability to forecast how the transformation will affect them. It’s also necessary to make information about the process highly transparent to head off any sense of insecurity among employees. It’s also a good idea to gather opinion leaders among employees and increase their involvement in the transformation process, which will often positively influence a broader spectrum of employees.

Epilogue

The Chinese retail banking industry has already experienced a 20-year period of rapid growth. The industry has seen its products go from simple to diversified, channels go from linear to multiple, and early experiments with customer segmentation and management and other positive changes. The retail banking industry in China has also built the beginnings of a relatively comprehensive business model and management system.

Today’s Chinese retail banking industry is facing new environments such as a transforming macroeconomic picture, changes in the financial markets, endless new regulations, and increasingly fierce cross-sector competition. These developments require retail bank strategists to directly take on a series of challenges such as homogenization of products, simple and unrefined customer management, segmented internal management, lengthy organizational response times, weak profitability and more. But at the same time, this environment offers an unprecedented opportunity to innovate and develop in leaps and bounds, truly fulfilling the promise of putting the customer first.

Looking ahead to 2020, we believe the perfect retail bank should unify humanity and technology, finance and life, and tradition and innovation. As long as strategists in retail banking are armed with complete insight into the internal and external workings of the new normal, take the initiative in creating differentiated business models, and diligently cultivate capabilities, they will have the opportunity to transform successfully and achieve profitability, leading the way to 2020.
For Further Reading

The Boston Consulting Group has published other reports and articles that may be of interest to senior financial executives. Recent examples include those listed here.

**Macro Trends in Retail Banking**

The Emerging Equilibrium in Banking: A Tool Kit for Success  
A Focus by The Boston Consulting Group, December 2014

The “New New Normal” in Retail Banking: How Banks Can Get Back on Course  
A Focus by The Boston Consulting Group, August 2012

**Digital Finance and Big Data**

Digital Finance 2020: Big Data  
A White Paper by The Boston Consulting Group, February 2015

A Report by The Boston Consulting Group, October 2014

How to Get Started with Big Data  
An Article by The Boston Consulting Group, May 2013

**Retail Banking Strategy and Business Models**

Formulas for Winning: Forging Innovation in China's Banking Sector  
A Focus by The Boston Consulting Group, September 2014

Customer-Centricity in Retail Banking  
A Focus by The Boston Consulting Group, March 2012

**Key Capabilities for Retail Banking: Customer Management, Channel, and Operation**

Global Wealth 2015: Winning the Growth Game  
A Report by The Boston Consulting Group, June 2015

Global Wealth 2014: Riding a Wave of Growth  
A Report by The Boston Consulting Group, June 2014

Operational Excellence in Retail Banking 2014: No Compromise: Advocating for Customers, Insisting on Efficiency  
A Focus by The Boston Consulting Group, May 2014

Lean That Lasts: Embarking on the Journey  
A Focus by The Boston Consulting Group, October 2013

Distribution 2020: The Next Big Journey for Retail Banks  
A Focus by The Boston Consulting Group, March 2013

Operational Excellence in Retail Banking: Committing to Customers in the “New New Normal”  
A Focus by The Boston Consulting Group, February 2013

Lean that Lasts: Transforming Financial Institutions  
A Focus by The Boston Consulting Group, September 2012
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