The Boston Consulting Group

Operational Excellence in Retail Banking

Committing to Customers in the "New New Normal"

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 78 offices in 43 countries. For more information, please visit bcg.com.

The BCG Game-Changing Program

We are living in an age of accelerating change. The old ways are rapidly becoming obsolete, and new opportunities are opening up. It is clear that the game is changing. At The Boston Consulting Group, we are optimistic: we think that the fundamental drivers of growth are stronger than they have ever been before. But to capitalize on this trend, leaders need to be proactive, to challenge the status quo, to make bold moves—*they* need to change the game, too. The decisions they make now, and over the next ten years, will have an extraordinary and enduring impact on their own fortunes as well as on those of their organizations, the global economy, and society at large. To help leaders and to mark our fiftieth anniversary, BCG is pulling together the best ideas, insights, and ways to win—to own the future. This publication is part of that endeavor.

BCG

THE BOSTON CONSULTING GROUP

Operational Excellence in Retail Banking

Committing to Customers in the "New New Normal"

Rob Sims, Christophe Duthoit, Michael Grebe, and Jaka Lednik

February 2013

AT A GLANCE

BCG's third annual global Retail-Banking Operational Excellence survey once again showed that operational excellence drives superior financial performance. Retail banks achieving excellence on a range of key performance indicators had low country-adjusted cost-to-income ratios.

Exploring Operational Excellence

The benchmarking survey comprised 18 of the world's 35 top retail banks in the Americas, Europe, and Asia-Pacific, collectively referred to here as *premier-league* banks. The goal of the 2012 study was to explore operational excellence in depth, taking an end-to-end, activity-based perspective rather than an organization view.

The Five Key Operational Trends of Premier-League Banks

The benchmarking highlighted five key trends in achieving operational excellence: strengthening the customer experience, increasing sales performance, improving end-to-end productivity, enhancing organizational efficiency, and reducing complexity.

The Imperative of Customer-Centricity

The operating models of premier-league banks are becoming more customer-centric and more efficient. Customer-centricity is now no longer a choice—it's an imperative.

ALTHOUGH ITS OVERALL HEALTH has improved since the darkest days of the financial crisis, the retail banking industry is not yet out of the woods.

As discussed in *The "New New Normal" in Retail Banking: How Banks Can Get Back on Course* (BCG report, August 2012), revenue growth remains stagnant at best in many markets; some banks are still liquidity starved and capital constrained, while others have limited access to qualified borrowers or other high-quality targets for capital deployment. Regulatory changes are adding operational burdens—requiring branch staff to collect more customer information during the account-opening process, for example.

At the same time, customers have become more demanding. For instance, they expect banks to provide simple interaction processes across multiple channels, when and where they prefer. Providing a truly integrated multichannel offering is increasingly just the minimum table stakes in the competition to attract and retain clients.

Despite the challenges, the industry's return on equity (ROE) in developed markets has improved from a nadir of 8 to 11 percent to 13 to 16 percent. ROE has been helped by dramatic reductions in impairments, improvements in bank cost positions, and a better pricing environment. Still, ROE is a far cry from precrisis levels of 19 to 25 percent. Banks face continuous pressure in the "new new normal" to further cut costs, one of the few realistic options for bridging the ROE gap.

Providing a truly integrated multichannel offering is increasingly just the minimum table stakes in the competition to attract and retain clients.

The Boston Consulting Group's third annual Retail-Banking Operational Excellence survey revealed the operational changes that the world's top retail banks in the Americas, Europe, and Asia-Pacific are making under tough market conditions in order to address this cost-reduction mandate. The survey also showed how these banks—a group we call the *premier-league* banks—are using these changes to improve the speed and quality of customer services. Our interpretation of these results is that a holistic approach to operational excellence yields the biggest benefits, but careful design choices that will align the operating model with the business model are also necessary.

The Key Finding: The Operationally Strongest Banks Outperform

The goal of the survey—conducted in 2012 and based on 2011 financial results—was to understand how premier-league banks maximize performance across their entire operations. We know from previous studies that four levers are paramount in delivering operational excellence—client excellence, efficient and effective processes, streamlined organization, and strong underlying capabilities. (See the sidebar "The Four Critical Levers of Operational Excellence.") In this survey, we again assessed all participating banks in the context of these levers.

Eighteen of the 35 premier-league banks took part in our 2012 survey—the largest sample to date.[1] Most of them participated in our previous surveys, and together they account for roughly 440 million customers, 72,000 branches, and $12 trillion in assets.

Significantly, the survey found that leading operational performance was concentrated among the banks with the lowest country-adjusted cost-to-income ratios (CIRs)—a key measure of both efficiency and profitability.[2] (See Exhibit 1.) Premier-league banks with the strongest overall operational performance therefore delivered superior financial performance. This finding highlights the crucial role of operational excellence in the new new normal of retail banking.

Four out of the six premier-league banks with the best CIRs in this year's survey were leaders in operational performance, including the top three. Through their

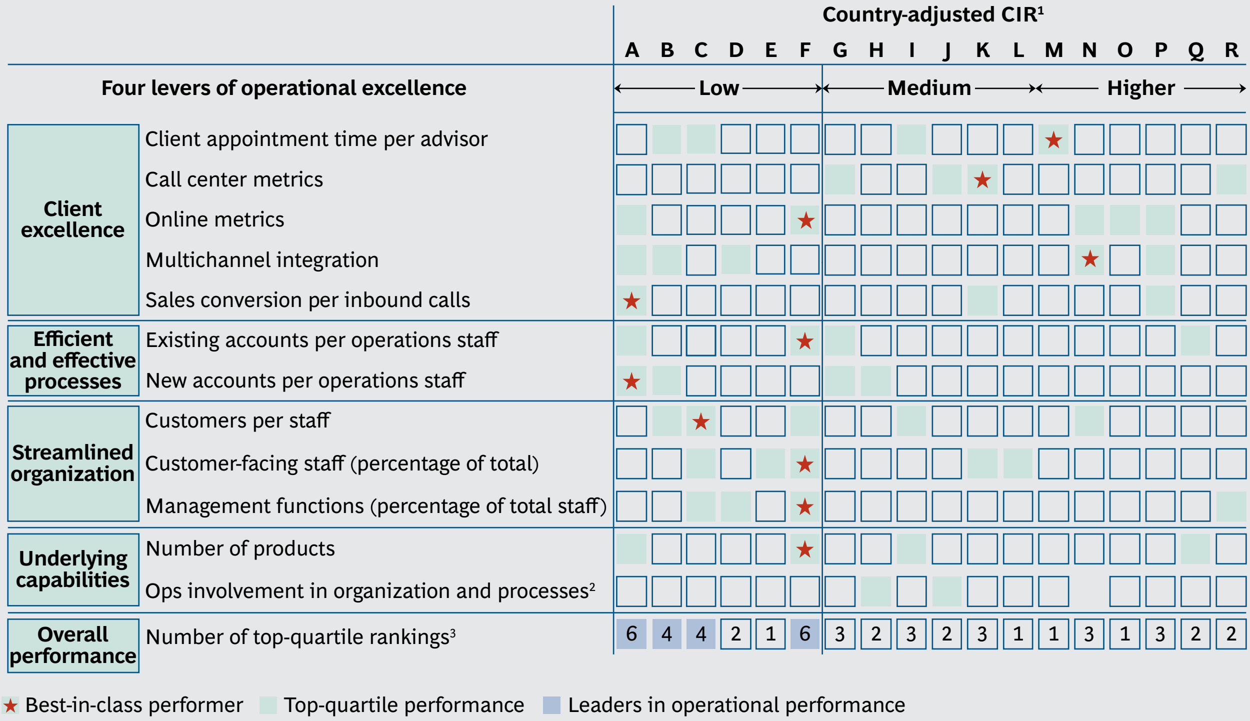
THE FOUR CRITICAL LEVERS OF OPERATIONAL EXCELLENCE

Excelling in terms of the four levers of operational excellence is critical for retail banks if they hope to raise their overall performance level.

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

EXHIBIT 1 | The Operationally Strongest Banks Achieve Superior Financial Performance

Four of the six banks with the lowest CIRs are strongest operationally, registering the highest number of top-quartile rankings



Source: BCG 2012 Retail-Banking Operational Excellence survey.
Note: When 2012 data were not supplied, 2011 data were used as a proxy. This was necessary in only a small number of cases.
[1]The country-adjusted CIR (cost-to-income ratio) is the bank's CIR plus an adjustment factor (the global average bank CIR minus the country average bank CIR).
[2]These data were obtained from qualitative interviews. We were unable to identify the best-in-class performer.
[3]This category excludes CIR score-ranking to avoid double counting with the overall CIR correlation.

operational-excellence programs, these banks have been able to create a competitive advantage over their peers by delivering superior service to customers while achieving superior financial performance. It is particularly notable that these banks were able to achieve top performance in at least two, and frequently three, of the four levers of operational excellence. When looked at together, these results show that a holistic approach to operational excellence in retail banking yields the biggest benefits but that banks are also rewarded for making careful choices.

More broadly, all of the premier-league banks performed in the top quartile in at least one key lever. This finding points out that banks today are being cautious when it comes time to make choices about where and when to invest in capabilities, based on their specific market conditions, target business model, client positioning, target operating model, and ambitions—and that these choices produce distinct strengths and weaknesses. The finding also serves as a reminder that banks should continue to look to one another to stay attuned to best practices.

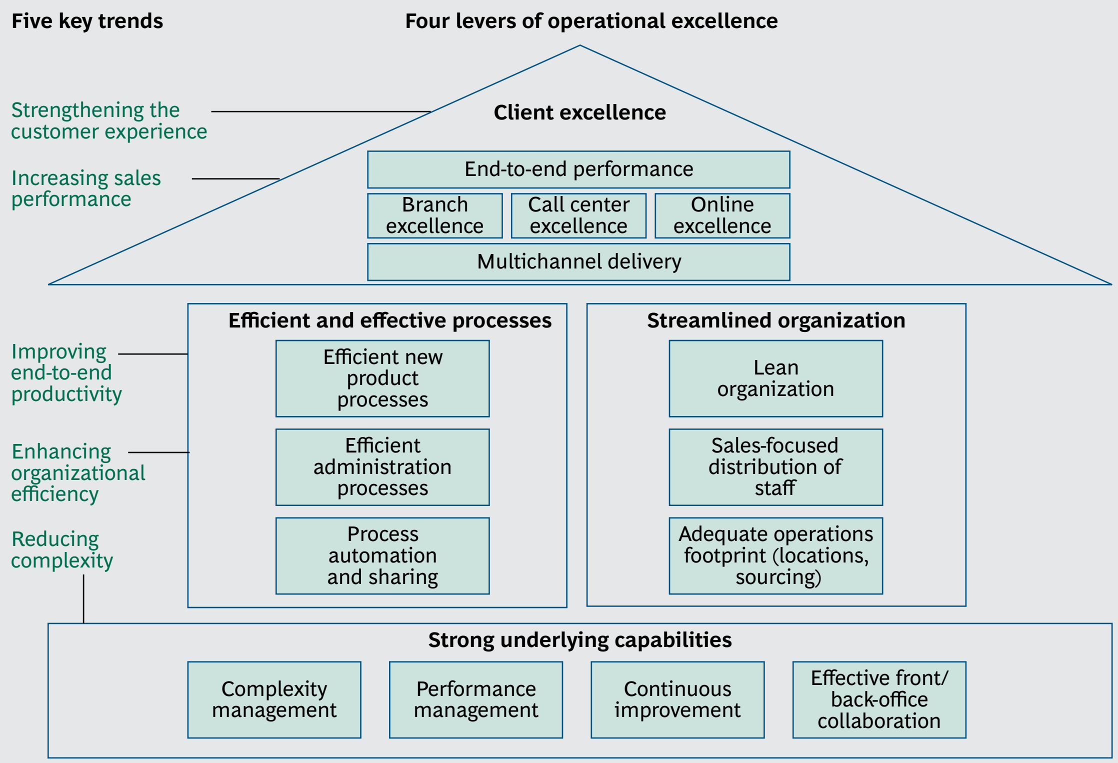
The Five Key Operational Trends of Premier-League Banks

The survey found five key trends in the approaches that premier-league banks use to achieve operational excellence:

1. Strengthening the customer experience
2. Increasing sales performance
3. Improving end-to-end productivity
4. Enhancing organizational efficiency
5. Reducing complexity

These trends span all four levers of operational excellence identified in our last report. (See Exhibit 2.) The unifying theme of the five trends is customer-centricity. The survey revealed that premier-league banks have improved the banking experience (trend 1), while better addressing core customer needs (trend 2) and improving the efficiency of key customer processes (trend 3). In addition, these banks structure their organizations to be more responsive (trend 4), and they continue to

Exhibit 2 | Premier-League Banks Exhibited Five Key Trends That Align with the Four Levers of Operational Excellence



Source: BCG analysis.

create simpler product portfolios and reduce complexity for customers and staff (trend 5). Banks are making these improvements because customer-centricity is no longer a choice; it's an imperative.

Here are the survey's detailed findings as they relate to each of the five key trends:

Strengthening the Customer Experience. The survey found that premier-league banks as a whole—led by a small group of top performers—continue to build an array of capabilities aimed at improving customer experience. High performers boosted staff time spent on client-facing activities, improved the efficiency and effectiveness of client interactions, and expanded customer-surveying efforts.

Most notable, perhaps, was the increase in time spent by customer-facing staff on client-related activities across the premier-league as a whole—an increase achieved by reducing time spent on administrative and other support tasks.[3] Throughout all such roles, the amount of time that staff spent with clients at premier-league banks grew in this year's survey by a minimum of 20 minutes to as much as 1 hour daily, for a total of 3.5 to 4.5 hours per day—an increase of 5 to 15 percent. That result is particularly impressive considering the impact of regulatory changes, which have increased administrative burdens on banks in many regions. One outcome of this growth in customer-facing time was increased productivity, with many banks achieving increases of more than 20 percent in branch transactions per service employee.

The top performers led in maximizing time spent with clients. They committed from 1 hour to 1.5 hours more time on client appointments and interactions per customer-facing staff daily—the equivalent of 15 to 20 percent—than their premier-league peers.

Significantly, premier-league banks shifted to a stronger customer focus largely by redefining existing staff roles, rather than by increasing the number of staff in client-facing positions. The overall percentage of client-facing staff in 2012 was 67

TREND 1: STRENGTHENING THE CUSTOMER EXPERIENCE

- *Maximize sales time with the customer.* Premier-league banks dedicate two-thirds of staff, on average, to customer-facing roles; the best ones dedicate more than three-quarters of staff.
- *Efficiently structure service roles.* Service and call center staff of premier-league banks spend 60 to 65 percent of their time with customers; at the best banks, it's more than 80 percent.
- *Solve issues right away.* Premier-league banks resolve 85 percent of calls on the spot.
- *Test to ensure they are getting it right.* Sixty percent of premier-league banks measure customer satisfaction individually.

percent—almost identical to the 2011 findings. In short, doing more for clients with existing resources appears to be a crucial strategy across the premier league today.

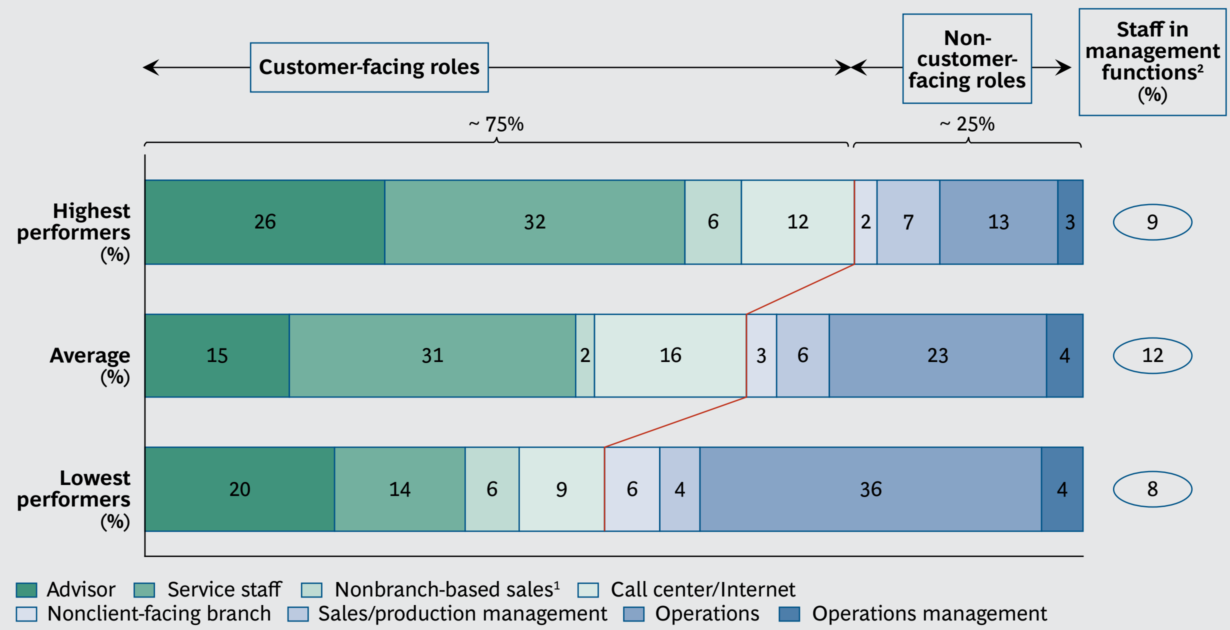
There was a large variance among banks in the percentage of client-facing staff, comparable with last year's findings. The highest performers ran lean operations while devoting significant resources to service and advisory roles. (See Exhibit 3.)

Premier-league banks are not only spending more time with clients but are also making these interactions more efficient and effective. Call centers offer evidence of this. Banks reduced call-handling times while increasing first-call resolution from 80 to 85 percent and maintaining—and in several cases boosting—sales conversion rates. Reducing the length of calls was achieved without affecting call productivity.

Discussions with the top performers made clear that more time spent dealing directly with customers, and more efficient service during those interactions, results in a better customer experience. Measuring customer satisfaction on an individual basis has therefore become the norm for premier-league banks. Sixty percent of them reported doing so in this year's survey.

One bank now conducts 10,000 detailed, follow-up customer interviews per week. The bank has also built customer experience metrics into employee reward plans at every level of the organization, from the frontline to the CEO. The bank's goal is for

EXHIBIT 3 | The Percentage of Customer-Facing Staff at Premier-League Banks Varies Widely



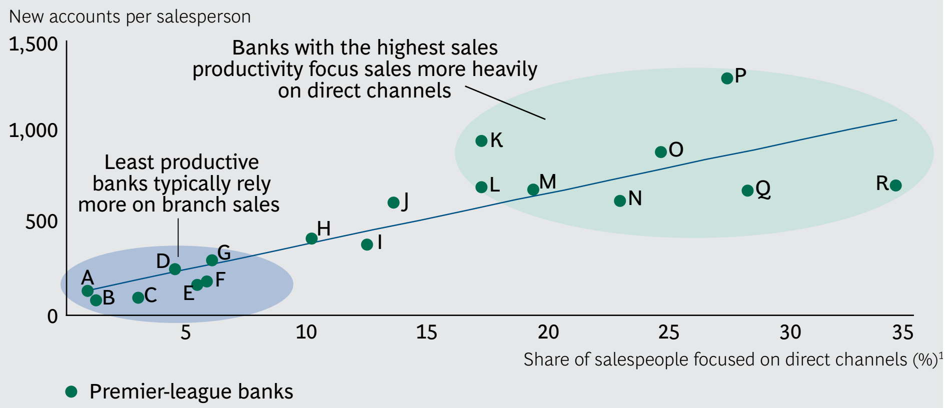
Source: BCG 2012 Retail-Banking Operational Excellence survey.
Note: The average was taken of representative banks in each segment, excluding banks with very different operating models (such as direct banks). Total percentages may not add up to 100 because of rounding.
[1]This includes sales by mobile ("hunter") sales agents, third parties, and mobile sales forces.
[2]This includes sales and channel management, product management, and operations management.

employees in branches and corporate headquarters alike to make every decision through a customer lens.

Increasing Sales Performance. The banks that lead the premier league in sales performance have been able to increase sales productivity by marrying a highly effective sales approach with strength in multichannel capabilities. (See Exhibit 4.) This two-pronged strategy is built on moving select customer interactions—though not entire banking relationships—to direct channels. This allows banks to use self-service channels when appropriate and refocus resources (including salespeople) elsewhere, while offering customers additional choice and convenience. Banks adopting this approach achieved 2.5 times the sales productivity of the premier-league median, as measured by new accounts sold per salesperson.

An effective sales approach must have an authentic customer-centric focus, consisting of relevant, proactive offers based on a deep understanding of the customer's

EXHIBIT 4 | Integrated Multichannel Strategies Help Sales Forces Achieve Superior Productivity



Source: BCG 2012 Retail-Banking Operational Excellence survey.
[1]Both Internet and telephone sales and service staff.

TREND 2: INCREASING SALES PERFORMANCE

- *Drive sales productivity.* Salespeople at premier-league banks acquire 500 new accounts per year on average. The best acquire nearly 1,300.
- *Drive sales lead generation.* Premier-league banks sell accounts to one in eight existing customers based on leads generated and converted; the best ones sell to one in four.
- *Increase multichannel penetration.* Premier-league banks drive 15 online transactions per customer per year; the best in class achieve 70 transactions and more.
- *Take advantage of low-cost online enrollment.* Forty percent of premier-league customers enroll online; 66 percent for the best in class.

needs. This year's operational-excellence survey identified a large spread in premier-league banks' ability to drive sales—historically one of the most underexploited capabilities among retail banks. Some banks, for example, were able to convert up to eight times more inbound interactions into sales than the median and to generate and convert twice as many leads to sales. (Lead generation is typically a weaker element than lead conversion in lower-performing banks.) These differences in sales capabilities are often the result of persistent incremental improvements in a bank's sales process—improvements built on a continually evolving knowledge of the needs, financial profiles, and behaviors of its individual clients. (See the sidebar "The Power of Continuous Improvement.")

Improvements include multichannel interactivity. The efforts made by premier-league banks to encourage the use of call centers and mobile and online channels led to a substantial increase in customers who took advantage of these interactive resources. Median online and ATM interactions per customer both rose by more than 15 percent. There was, however, a significant gap in capabilities between the

THE POWER OF CONTINUOUS IMPROVEMENT

The gradual evolution of one leading U.K. retail bank's sales capabilities offers valuable insights into the long-term power of continuous, incremental improvements in an organization's sales process. The outcome is also a reminder that superior lead generation and conversion doesn't happen overnight.

The bank historically used lead generation as a blunt tool to drive sales, drawing on basic customer-behavior and account-usage data to support the process. Over time, the bank evolved from using a volume-based sales approach to a customer value strategy, focusing on depth and quality of customer relationships. The bank found that focusing on the "next best action," often geared at driving better account usage from existing customers, created more value over time than incremental single-product sales. One strategy included persuading cutomers to use the bank for their primary current account—even when they have accounts at multiple banks.

Gradually, the bank also increased its data-mining sophistication, gaining a deeper understanding of customer behavior across channels and products in order to generate stronger leads and offers for its customers. By building an understanding of channel response propensities, the bank has begun delivering these offers through the channel that maximizes the chance of a sale—and not just at the next interaction. By tracking specific customer responses—and, therefore, level of interest—to prompts already delivered, the bank is able to avoid repeat messages detrimental to the customer experience.

Over time, the changes have significantly driven sales effectiveness while delivering a more personalized and pleasing service to customers, demonstrating that a continual focus on customer-centric capabilities and operational excellence can result in a long-term payoff.

banks leading in multichannel interactivity and the premier-league median. Leading banks had 1.5 times as many customers enrolled online as the median, and they generated eight times as many online transactions. The leading banks' main focus in channel development was to extend capabilities in online and mobile banking—in order to ensure that customers can execute simple transactions on the go—often at the expense of still unproven investments in social media.

Yet despite the increased attention to online capabilities, brick-and-mortar branches remain a critical component of channel strategy across the premier league. Banks continued to improve the size and mix of their branch footprints, finding that customers still demand a network of conveniently located and efficient branches.

Improving End-to-End Productivity. Premier-league banks as a whole invested in improving their operational processes, this year's survey found. The biggest gains in efficiency—measured on the basis of existing accounts administered per operations staff, a core productivity KPI—were a 28 percent productivity improvement for current and savings accounts and a 25 percent improvement in unsecured loans, followed by 9 percent gains in credit cards and real estate loans.

While the premier-league median efficiency improved, creating more-effective banks, the study's top performers made 10 percent larger gains on average and extended their existing advantage.[4] In general, the study confirmed that banks with low or moderate starting points were able to make equally large improvements in account management efficiency as banks that were already considered to be in the top quartile. In fact, the principal driver of the growing productivity gap in this year's survey was that most top-quartile banks improved; last year, only a portion of median and lower performers showed operational improvement. Top-quartile banks are now two to three times more productive than the median, and the gap is growing.

That performance gap is important to banks and to their customers. Process efficiencies often bear secondary gains, benefiting the client as well as the bank. This was exemplified at a North American bank, which had a cumbersome and error-prone

TREND 3: IMPROVING END-TO-END PRODUCTIVITY

- Premier-league banks are streamlining their operations and dramatically increasing the efficiency of operations staff.
- For existing current and savings accounts at premier-league banks, there has been a 28 percent increase in efficiency (23,000 per staff).
- For unsecured loans at premier-league banks, there has been a 25 percent increase in efficiency (12,000 per staff).
- For credit cards and real estate loans at premier-league banks, there has been a 9 percent increase in efficiency (13,000 credit cards and 2,600 real estate loans per staff).

legacy process for opening accounts that was spread across multiple systems and required multiple handoffs. Significant rekeying of client information during account openings—for both bank and governance documents—slowed the process, frustrated customers, and tied up staff. The bank used a lean approach to reengineer end-to-end processes. It integrated systems, adopted policies allowing single documentation, and eliminated process duplication. As a result, cycle time and process costs both fell 25 percent, staff was freed up for more client interactions (both serving walk-ins and proactively contacting customers), and customer satisfaction soared.

Enhancing Organizational Efficiency. More than 70 percent of premier-league banks have undergone, or are still undertaking, significant organizational-transformation projects. Those efforts often focus on reducing layers of management and establishing more consistent and appropriate reporting lines, usually by increasing spans of control.

Premier-league banks are typically targeting a maximum of seven management layers, with small variations based on the organization's size. The median for spans of control is seven direct reports per manager across the organization, with variations by function. For example, in call centers and back offices, spans of control are typically larger—15 to 20 or more on the team level and 8 to 12 at senior levels.

While cost reduction is usually the main driver of these transformation efforts—typically yielding employee cost savings of 10 to 25 percent or more for successful projects—there are other significant benefits. Eliminating management layers speeds up an organization's decision making, increases its responsiveness and transparency (especially for senior management), and improves accountability. Increasing spans of control helps to avoid micromanagement and increases individual responsibility, allowing managers to focus on decision making.

Forty percent of premier-league banks are also creating shared service centers for support functions, the survey found. These centers consolidate the resources

TREND 4: ENHANCING ORGANIZATIONAL EFFICIENCY

- *Proactively restructure.* More than 70 percent of premier-league banks restructuring their organizations aim for 10 to 25 percent (or higher) staff cost savings—often with seven layers and seven average control spans.
- *Drive organizational efficiency.* Among premier-league banks, 40 percent are actively building shared-service centers to target additional cost savings of more than 10 percent.
- *Create lean organizations.* Premier-league banks reduced management and support functions by 20 percent in 2012.
- *Slow the reliance on outsourcing.* Only 40 percent of premier-league banks are planning further outsourcing, down from 70 percent in 2011.

needed to perform similar noncore activities—often within one company unit. The resulting scale benefits and duplication reductions cut costs further. Typical savings are greater than 10 percent and often approach 20 percent. Here, too, cost savings aren't the only driver. Shared services encourage process standardization, the sharing of best practices, and higher returns on investments in technology.

Shared service centers take a variety of forms and structures, depending on the bank and its ambitions. Some banks, for example, create a decentralized network of individual centers housed in different business units and coordinated through a "center of excellence" function. This model helps drive process excellence while minimizing structural change. Conversely, some high-performing banks have implemented freestanding shared-services organizations—especially in the areas of operations and IT, where the aim is to maximize standardization and coordination. In order to succeed, this usually requires significant organizational change and the leadership of a strong executive with experience in both operations and IT.

This year's survey revealed staff reductions in management and support functions of about 20 percent across the premier league.[5] This finding highlights the emphasis that many banks are placing on enhancing organizational efficiency. The largest reductions were seen in operations, with significantly smaller changes in sales and support roles.

Interestingly, the survey suggests that the benefits of outsourcing, insourcing, and offshoring may have peaked for premier-league banks. Less than 40 percent of them plan further outsourcing or offshoring in the future, down from 70 percent last year. And about 25 percent of banks plan to insource in the future, down from 55 percent last year.

Reducing Complexity. Complexity reduction is a growing focus for premier-league banks. Most of the banks we surveyed are striving to reduce complexity in their business models and corresponding operating models: 55 percent intend to reduce complexity in the future, an increase from 45 percent the year before. Roughly 25 percent reduced complexity this year by cutting the number of products they offered.

One example of a successful program to reduce product complexity comes from a major European bank. The bank, the leader in its domestic market, realized it needed to simplify its retail-savings offerings and decided to make this initiative a core

TREND 5: REDUCING COMPLEXITY

- *Drive tangible change.* Of premier-league banks, 25 percent have reduced their number of products; more than 50 percent plan reductions in the coming year.
- *Stay serious about simplicity.* Almost 50 percent of premier-league banks ensure that operations play a strong role in new-product development.

tenet of the merger that it was pursuing. The effort succeeded, but it didn't end with the merger's completion. The bank went on to institute a successful continuous-improvement initiative, drawing on feedback from customer complaints and supported by the bank's operations capabilities. It established best practices—such as standardizing all new products, limiting product variance, and using customer feedback as the ultimate "single source of truth" on 80 key processes. As a result, this bank has managed to balance sales needs and operational delivery. Its pre-merger portfolio of 62 savings products was reduced to about 20 after the merger and 8 today. While the bank retained its three core product families (fixed, variable, and other), the number of variations within each family dropped between 70 and 90 percent—resulting in a final portfolio of four variable products and two each of fixed and other. The bank now differentiates products based on the marketing appearance to clients rather than how they are processed.

Operational improvement must be seen as a long-term goal, underpinned by continuous self-reflection and persistent, incremental change.

Premier-league banks increasingly realize that they need to establish the right organizational structure to support these types of changes. Operations must therefore have a seat at the decision-making table. Further, the end-to-end operating model needs to be well aligned with the bank's strategy and customer value proposition. Operational improvement must be seen as a long-term goal, underpinned by continuous self-reflection and persistent, incremental change. Appropriate governance structures need to be in place to ensure delivery of the right outcomes.

Banks are making steps in the right direction. For example, 45 percent of banks in this year's survey reported that operations played a "strong role" in the introduction of new products, up from 14 percent just a year ago. Likewise, all of the premier-league banks claimed to incentivize improvements in operations performance, compared with roughly 70 percent a year ago.

Despite these advances, relatively few banks have made a true commitment to operational change. For example, while regular end-to-end reviews are conducted at 54 percent of the premier-league banks surveyed, only 18 percent of banks perform them annually. While 90 percent of banks in our study report pursuing complexity reduction through continuous-improvement programs (rather than relying exclusively on individual, episodic change efforts), only 10 percent have a core belief in the type of continuous improvement that is supported by rigorous annual process reviews.

Beyond KPIs: A Perspective on Achieving Operational Excellence

In last year's report, we concluded that "banks that take a wait-and-see attitude instead of aggressively pursuing improvement ... may find themselves playing catch-up to competitors—and sooner rather than later." (See *Operational Excellence in Retail Banking: Raising Performance in Turbulent Times,* BCG Focus, February 2012.) That conclusion was confirmed by this year's survey. While many premier-league banks are making improvements by using the four key levers, a small number of high-performing institutions are differentiating themselves through true operational excellence across a broader range of KPIs and are achieving superior financial performance.

These trends are also a step in the right direction toward customer-centricity, but banks that want a truly end-to-end customer-focused approach will need to go further. It's no longer good enough to bolt client-friendly elements onto existing products and processes. Rather, banks must embrace serving the customer as a guiding principle in decision making and planning across the organization. Customer-centricity must be in the bank's DNA.

Banks have to focus on the client perspective—in IT systems, customer intelligence capabilities, and operations—by making customer feedback integral to process improvement, for example. Customer needs should shape product offerings, and product features must be easy to understand. The customer must also be a key factor in organizational design and incentive structures. Acting in the customer's interests should be an integral part of a bank's strategy, culture, and capabilities, supported by strong executive commitment and institutionalized through training and recruiting.

To fully understand the scale of the challenges that lie ahead, retail banking CEOs and COOs must go beyond simply setting KPI targets. They need to ensure that their organizations are structured, resourced, and managed to support the goals of operational improvement and better service delivery to customers. That is the path to superior financial performance.

Banks must embrace serving the customer as a guiding principle in decision making and planning across the organization. Customer-centricity must be in the bank's DNA.

The following questions provide a starting point for CEOs and COOs to determine, in discussions within their teams and with the broader organization, how ready their bank is to deliver operational excellence. First, it is crucial to assess the bank's current operational status and to set priorities:

- Where does our bank stand with regard to the four key levers of operational excellence? How many first-quartile performances do we have?
- Which areas and KPIs are most critical to supporting the bank's value proposition and boosting customer-centricity?
- Do we have a clearly articulated blueprint of the target business model and target operating model?

Next, identify the needed initiatives:

- What key initiatives and capabilities are required to boost operational excellence in prioritized areas?
- Which of these initiatives are already under way—with an accountable owner, a timeline, milestones, and impact targets; which of these still have to be set up?

And finally, prepare the groundwork to deliver change:

- Do our organization and governance support our ambitions? Have we established the right incentives and decision rights established to drive change?

- Does our staff have the right capabilities?
- Are we appropriately resourced to deliver operational excellence while meeting the bank's other commitments?
- Do we have the suitable technology for delivering the strategy?
- Do we adequately make use of our footprint and scale through near-shoring, offshoring, or outsourcing?

Our view remains that banks that take the initiative now and pursue operational excellence over the long term, with appropriate commitment and strategic focus, will find themselves ahead of the game in the years to come. Those that sit back and wait will continue to fall behind—a position from which rebounding quickly will be very difficult.

Notes

1. The banks were chosen based on the size of their retail-banking operations and the strength of their all-round capabilities, including operations.
2. The country-adjusted CIR equals the bank's CIR plus an adjustment factor (the global average bank CIR minus the country average bank CIR). This measure allows for CIR comparison among banks across different countries by removing the country-specific variances.
3. Customer-facing roles include call centers and Internet operations, nonbranch sales, service staff, and advisors; noncustomer-facing roles include operations management, operations, sales and product management, and nonclient branch roles.
4. Efficiency improvements were measured across all products.
5. We included internal and captive, external, and outsourced staff in management and support functions, with staff allocation based on activities, not roles. We also included sales and channel management, product management and product support, and operational activities not directly related to a process step or product group.

About the Authors

Rob Sims is a partner and managing director in the Toronto office of The Boston Consulting Group and the global topic leader for operational excellence in retail banking. You may contact him by e-mail at sims.rob@bcg.com.

Christophe Duthoit is a senior partner and managing director in the firm's Paris office and the leader of the global banking technology and operations segment. You may contact him by e-mail at duthoit.christophe@bcg.com.

Michael Grebe is a partner and managing director in BCG's Munich office. You may contact him by e-mail at grebe.michael@bcg.com.

Jaka Lednik is a project leader in the firm's London office. You may contact him by e-mail at lednik.jaka@bcg.com.

Acknowledgments

The authors would like to thank Michael Leyh, Emily Middleton, and Annette Wolter for their work on the Retail-Banking Operational Excellence survey. Special thanks also go to Jonathan Gage for his editorial direction as well as to other members of the editorial and production teams, including Katherine Andrews, Gary Callahan, Sarah Davis, Kim Friedman, and Sara Strassenreiter.

For Further Contact

If you would like to discuss this report, please contact one of the authors.

BCG
THE BOSTON CONSULTING GROUP

Abu Dhabi
Amsterdam
Athens
Atlanta
Auckland
Bangkok
Barcelona
Beijing
Berlin
Bogotá
Boston
Brussels
Budapest
Buenos Aires
Canberra
Casablanca
Chennai
Chicago
Cologne
Copenhagen
Dallas
Detroit
Dubai
Düsseldorf
Frankfurt
Geneva
Hamburg
Helsinki
Hong Kong
Houston
Istanbul
Jakarta
Johannesburg
Kiev
Kuala Lumpur
Lisbon
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis
Monterrey
Montréal
Moscow
Mumbai
Munich
Nagoya
New Delhi
New Jersey
New York
Oslo
Paris
Perth
Philadelphia
Prague
Rio de Janeiro
Rome
San Francisco
Santiago
São Paulo
Seattle
Seoul
Shanghai
Singapore
Stockholm
Stuttgart
Sydney
Taipei
Tel Aviv
Tokyo
Toronto
Vienna
Warsaw
Washington
Zurich

bcg.com