Retail banking distribution model to evolve by 2025, says BCG

BY VANESSA GOMES

The branch-centred distribution model for retail banks is set to evolve in almost every country by 2025. This is in response to changing consumer preferences in the area of smart digital banking, which is available across channels and tailored to meet their immediate needs. The new model will be more automated, channel agnostic and capable of meeting individual needs, according to a recent report by Boston Consulting Group (BCG).

The report, titled *Retail-Banking Distribution 2025: Up Close and Personal*, says the expectations of retail banking are changing fast in line with customers wanting the same type of digital experience they receive from big tech, e-commerce sites and social media. "That means doing business on their own terms — when and where they want. Banking leaders understand that to satisfy today's customers, they need a new distribution model. So far, many have failed to step up, and some customers are going elsewhere," it adds.

The report highlights that retail banking distribution will look completely different by 2025 as banks connect with customers through their own and third-party platforms. "Humans and machines will work in partnership and the lines between them will blur. To get there, banks must rethink delivery and commit to digital from front to back," it says.

The expectations customers have of banks are similar to what they receive from payment, music and shopping apps. However, banks on the whole have failed to deliver, says the report.

"Tech companies, in particular, have raised the bar on service, leveraging big data to offer customers a smarter, more relevant service that is helping them compete in areas such as savings, payment and credit. In an age of digital convenience, consumers are notably unimpressed by banks' clunky processes," it adds.

According to BCG, the challenge for retail banking leaders is to manage the shift away from a distribution paradigm that, in just a few years, has become almost obsolete. In many markets, people bank almost exclusively through smartphone apps and many would probably go 100% mobile if the opportunity were available, says the report.

The change to a different distribution model by 2025 does not mean there will be no branches. The report states that the human touch will still play a valuable role, especially during certain critical moments, but it will recede into the background.

Radically reformed branches that conduct in-person and remote relationships — along with customer contact centres and specialist sales teams — will play second fiddle to a digitally dominated proposition. For retail branches, banks need to embrace new formats, says the report.

Simple measures such as adjusting branch operating hours can help, with new entrants in some markets offering evening and weekend services. Modern branches should meet the needs of local markets by including franchises, mobile branches, 24/7 digital-only branches and partnerships with retailers.

The report notes that it will not be so easy for banks to change their models so quickly. However, those that embrace disruption will enjoy the highest payoffs, be able to meet customer needs and achieve operating model efficiencies. The net impact will be that profitability will increase as much as 25%.

Five levers were highlighted as being able to "make a difference between the building of a retail bank that meets the needs of the digital generation and a gradual slide into irrelevance". The five levers are implementing the intelligent routing of customer requests between digital and assisted channels; shifting from contact centres to customer care platforms; embedding "distribution" on partner platform services through application programming interfaces (APIs); reducing branch networks while taking steps to optimise the remaining branches; and harnessing the creativity and passion of frontline colleagues to meet customers' needs.

KEY TRENDS THAT WILL RESHAPE BANKING INDUSTRY

Leading banks will be "ubiquitous" by 2025 as it will engage with customers much more actively and respond to each situation appropriately and in good time, says the report. It highlights several key trends that will reshape the banking industry, the first of which is having multiple customer touch points.

The absolute and relative volume of digital touch points will increase year to year and they are already doing so. Banks will make the effort to connect with customers using a multitude of channels, modalities and devices. They will also leverage a broad array of tools, including mobile apps, the Internet of Things, APIs, aggregators, internet searches and social networks.

"A major Nordic bank, for example, has reported that, on average, its customers have physical meetings with bank personnel once every five years. However, the average customer uses the bank's mobile solutions about once every two days," says the report.

"Still, we expect human contact will remain important, particularly at key moments in the sales process. In addition, banks of various countries will move at different paces as they transition away from face-to-face customer meetings."

The next key trend is blurred lines between humans and machines. The report highlights that analytics and artificial intelligence (AI) will increasingly enhance decision-making and communications, and inadvertently blur the lines between man and machine. Customers, however, will not see the difference.

The application of technology can free up at least 10 days a year for a relationship manager. The report cites the example of France-based Crédit Mutuel, which used IBM's Watson solution to support 20,000 customer advisers in responding to 350,000 daily inquiries related to 200 products.

"Whenever Watson does not have an answer, it does the next best thing — it offers a suggestion to its human operators. Such capabilities will become sharper and more powerful over time, providing a more consistent and fluid customer proposition," says the report.

Next are multiple delivery options across channels. Right now, channel decisions are singular and linear where customers can walk into a branch, speak to a call centre or chat online. But the interaction is not shared across channels now.

The report says there will be integration in the future, where customers will have access to information and advice through convenient channels. "Banks will communicate using text, voice (human or automated, online or in person) and video. They will leverage AI, automatically routing a customer to the most relevant option, identified on the basis of cost to serve, the complexity and nature of the customer's request, and client preference.

"The cost of distribution will continue to vary drastically among channels, emphasising the need for a smart routing engine that can determine hierarchies on the basis of the nature of requests. This ability will, in turn, require omni-channel orchestration and mutualised channel management. Benefits will include faster service, higher conversion rates and increased customer satisfaction."

The fourth key trend is the service model differentiation based on customers' profiles and preferences. Today's banks offer too many products with little demand. The report says that by 2025, banks will present a much simpler proposition where on the one hand, the proposition will comprise a mass-market offering that is distributed digitally across channels and at low cost. On the other, it will consist of fewer, more complex products that target niche segments of the more affluent customers and are backed by human expertise as appropriate.

The next trend the report highlights is mass personalisation. It points out that nearly two-thirds of millennials say they are willing to share personal data in return for more personalised service. In response to this, banks will strive to make valuable interactions by using data analytics to aid decision-making and offer relevant insights, products and services.

"Customers will get the experience, channel, products and pricing that correspond to their needs. And in high-value interactions, humans will intervene at key moments. Tech giants and new entrants have raised the bar, and banks must keep pace. Personalisation is an equally effective lever in customer acquisition, increasing frequency of contact, cross-selling and churn prevention," says the report. E