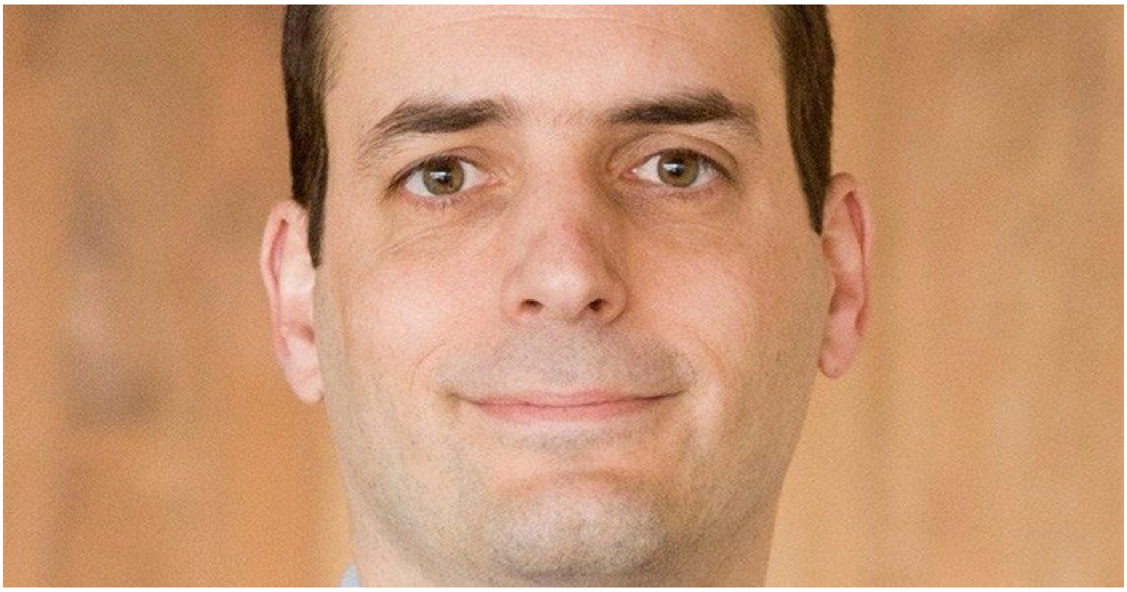
Retail banks need to beef up their offering or risk losing 15-25% of their revenue

By Tijsbert Creemers-Chaturvedi

5 Jan 2021

Regulatory changes, rising customer expectations, new competition, and technological advancements are weakening the daily interactions that cement the relationship between banks and their clients, thereby threatening banks' profitability.



Dr Tijsbert Creemers-Chaturvedi, managing director and partner, Boston Consulting Group

We estimate that a retail bank puts 15% to 25% of its revenue at risk if the institution fails to enhance its daily banking proposition by adding innovative new features, improving customer experiences, making better use of data, and commanding higher prices that reflect the added value enabled by open banking.

Additionally, Covid-19 is on a path to change the way consumers interact with their banks, with one in four customers planning to use branches less or stop visiting them completely. Millennial and Gen-Z consumers have particularly warmed to digital channels during the crisis with nearly half of participants enrolling in online or mobile banking for the first time.

Locally, a number of digital banks have launched over the last few years and they can potentially capture a significant slice of the banking value chain. Incumbent banks are boosting their digital capabilities by innovating and collaborating with startups to offer digital-first services, drive efficiencies and attract new customers. To remain competitive and unlock new business opportunities across sectors, banks must provide mobile payments and other digital services. This form of payment represents a must-win opportunity for banks on the continent because technology companies outside of Africa will capture the market if local banks fail to provide these services.

Retail banks can draw on best practices established by other B2C service providers during the past two decades to transform daily banking. Inspired by data-driven insights and attuned to the power of behavioural science, companies in large, global industries—as varied as telecommunications and media, transportation, and even personal care—have creatively and profitably transformed their approach to pricing and product propositions in response to similarly rapid changes in their markets.

Data as a source for value creation

The challenges in retail banking today are numerous, relatively new and urgent. Low interest rates have put pressure on traditional earning models. Low growth has intensified competition for market share among incumbents, direct banks and financial-technology companies which also pose an emerging threat.

However, these shouldn’t overshadow the numerous opportunities. Banks are realising that customer relationships formed on the basis of daily banking contribute more than just deposits. They also provide a rich supply of data that can serve as a source for value creation. Such data yields insights that can help boost profits by improving risk assessments, uncovering ideas for more cross-selling and developing personalised value-added services. Just like other B2C service providers, banks can use this data to enhance customer relationships. They can understand customers better, predict behaviours and make a bank’s offerings more intuitive—an especially important factor – because so much of today’s consumer banking activity is online and self-service.

Move away from one-size-fits-all

Another substantial and lucrative opportunity involves redesigning the daily banking proposition itself, in which banks choose one of several ways to leave behind their one-size-fits-all past and strive for the right combination of bundling and differentiation for the future. Improvement requires attention to all three elements of the daily banking proposition—features, price structure and price levels—rather than a narrow focus on only price levels.

To create winning propositions in daily banking, the best banks take three steps, which they then integrate into a holistic solution: they outline their solutions at a high level, gain a more thorough understanding of their customers and quantify their customers’ value perceptions.

The personalisation imperative

Although much of the discussion about personalisation in banking focuses on marketing, its true potential lies in transforming all of an organisation’s customer interactions by using data and analytics to anticipate individual needs and build deep relationships that stand the test of time.

Several consumer brands have shown the way forward and although many financial institutions are conceptually on board, true end-to-end personalisation requires developing new muscles—such as strong cross-channel offerings, cross-enterprise collaboration, a single view of the customer and a new technology ecosystem—all of which are difficult to build.

Ultimately, if done well, personalisation at scale can provide a direct route to lower rates of customer churn and higher sales. Conservatively speaking, it can lead to annual revenue uplifts of 10% for banks. In many ways, personalisation at scale is a 21st-century approach to delivering what the banking industry lost many years ago: the ability to truly know customers, anticipate their needs, engage in a rich dialogue about their financial lives, and, as a consequence, foster loyalty that can last a lifetime.

The pandemic is set to accelerate digital transformation in the retail banking industry. While it is likely that consumers will continue to switch from physical banking to online and mobile banking, banks will need to rise to the challenge of embedding the benefits of in-branch, personal interactions within their digital offerings and at the same time, improve on the holistic customer experience.

But the process begins when the bank truly understands the needs and value perceptions of its customers and offers them a choice among propositions. This leads to greater customer satisfaction and drives better financial performance. B2C service providers have known about these approaches and outcomes for years and have acted accordingly. Banks now need to do the same.

ABOUT THE AUTHOR

Dr Tijsbert Creemers-Chaturvedi is the managing director and partner at Boston Consulting Group.