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Striving for Growth

Best Practices in Retail Banking Sales and Service Channels

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Retail banks are raising their game across the board and across the globe. In a comprehensive study of more than 100 banks across 17 countries, Booz Allen Hamilton found that retail banks are developing and adapting their distribution channels to meet the needs of increasingly demanding customers; branches are more attractive and better designed; websites are more secure; and call centres offer quicker solutions to customers' problems. Some banks are achieving excellence in key fields such as HSBC in Hong Kong, which is setting the standard for branch banking, or Woori Bank in South Korea, showing the rest of the pack how online banking should look, feel, and function.

However, there is still an enormous amount of work to do. Despite efficiency programmes, most banks have not significantly reduced their cost-to-income ratios. While costs have fallen, so have revenues, thanks largely to growing competitive pressures and narrowing margins.

Clear opportunities for expansion exist, but many banks are failing to adequately capitalise on the enormous potential of the key growth channels—online and mobile sales forces—because the performance of these channels does not yet meet customer needs and expectations. Moreover, banks need to pay greater attention to channel integration, where this is relevant to consumers, as few banks manage to achieve this today.

Some banks have achieved excellence, but there tends to be a huge gulf between best practice and average performance, suggesting that for the majority of banks, there is ample opportunity to improve performance and boost revenues.

To establish how far banks have come and how far they have to go, Booz Allen carried out extensive research—a study of consumer insights based on interviews with bank customers in Europe, North America, Middle East, Latin America, and Asia—and a comprehensive mystery shopping exercise based on shopping and service experiences for each channel. Based on the findings of this research, the Booz Allen Revenue Enhancement (BRE) Index has been developed, taking into account performance across the four main channels: branch, call centre, online and mobile sales force, as well as a multichannel index.

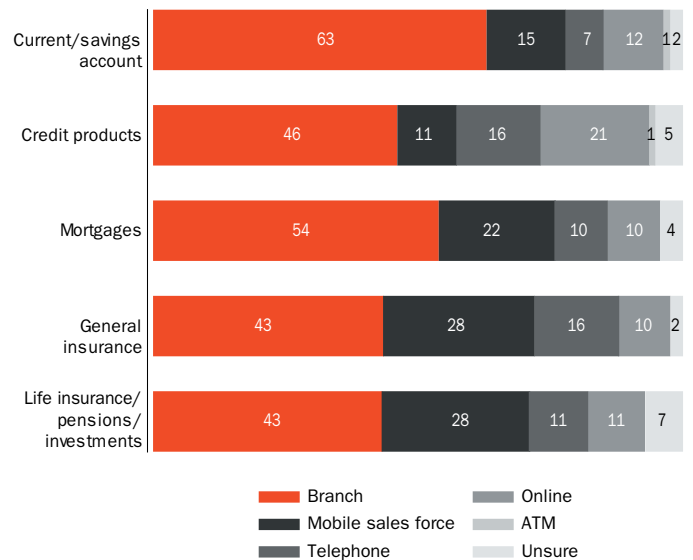
What Do Customers Want?

Booz Allen's consumer research reveals that despite the development of alternative channels, customers still prefer to purchase in the branch. However, the importance of the branch is in decline, and the mass affluent form the group leading the march away from branches, and towards mobile sales force and the Internet. When it comes to alternative channels, customers prefer online to telephone transactions, particularly when the product and the transaction itself are relatively simple. One area in need of significant development is the mobile sales force, which at present is limited or nonexistent in all but a few countries.

While these are the broad trends, variations exist in channel preference, driven by the complexity of the activity, the complexity of product, the degree of affluence, and the geographical region.

Channel	Most Valued Global Attributes in Descending Order
Branch	<ul style="list-style-type: none"> ▪ Privacy ▪ Product knowledge ▪ Query resolution ▪ Central location ▪ Short wait time ▪ Staff knowledge of customer
Online	<ul style="list-style-type: none"> ▪ Robust security measures ▪ Simple and quick logon ▪ Site availability ▪ All services on same site ▪ Clear and intuitive layout ▪ Comprehensive information
Call centres	<ul style="list-style-type: none"> ▪ Option to speak to human ▪ Fast security checks ▪ Query resolved within call centre ▪ Multiquery resolution within call ▪ Short wait time ▪ Few hand-offs
Mobile sales force	<ul style="list-style-type: none"> ▪ See same adviser again ▪ Query resolution ▪ Adviser completes request ▪ Automatic updates of all systems ▪ Product knowledge ▪ Time flexibility

Exhibit 1
Global Consumers: Preferred Purchasing Channels



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

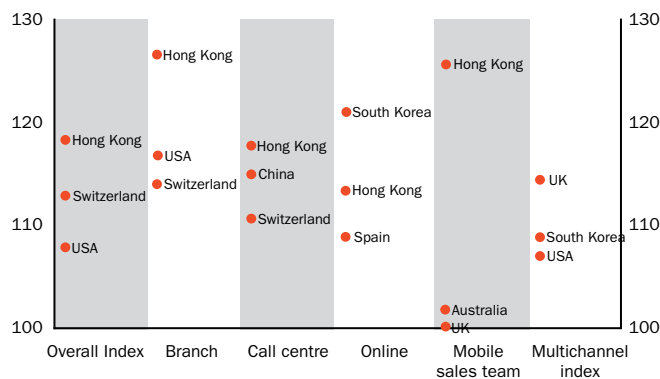
- While customers are quite happy to purchase straightforward credit products—such as cards and personal loans—over the internet, they are much less likely to purchase pensions or investments online. Moreover, they are two and a half times more likely to carry out a simple transaction over the telephone than they are to purchase a product.
- Wealthier customers, who tend to be time poor and require a more specialised service, are 30 percent more likely to prefer the online channel.
- Regional preferences are also clear: North American customers, for example, strongly prefer to purchase products online.

Which Countries Are Achieving Excellence?

First world countries are not always those offering first class retail banking service—banks in certain newly industrialised countries, including South Korea and China, often showcase elements of best practice. The strongest region overall, leading the field in three out of the five categories, is Hong Kong. This is partly due to the advanced state of segmented approaches in Hong Kong banks, e.g., premier banking and mobile selling. Other top

performing countries include Switzerland and the United States. Certain regions excel in certain areas: Swiss and US retail banks, for example, have excellent branches, while South Korea leads the field by a considerable margin when it comes to online performance. The biggest gulf in performance exists in mobile sales teams, where only a few regions, including Hong Kong and Australia, offer this service on a large scale.

Exhibit 2
Top Three Country Performers by Channel



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

Which Banks Are Achieving Excellence?

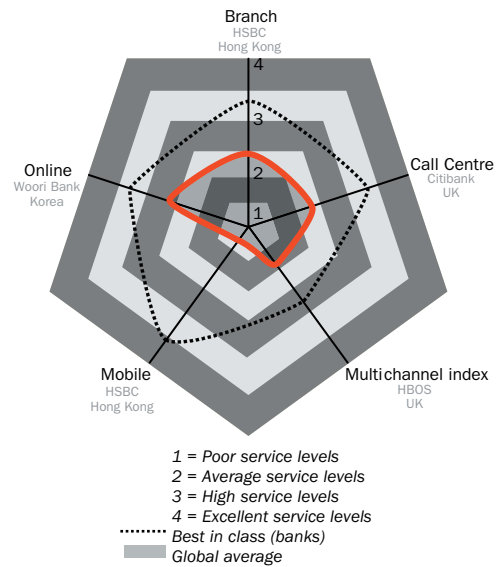
There is a very wide variation in performance at the bank level, but the best performing retail banks overall are HSBC in Hong Kong, Switzerland's Raiffeisen, and UBS in Switzerland. HSBC Hong Kong tops the lists for best branches and best mobile sales teams, while Citibank UK provides the best call centres. Two banks in Korea—Woori Bank and Citibank—feature in the top three banks for the online channel, while the UK's HBOS offers the best multichannel integration.

Overall, banks perform best in branch and online channels. Call centres are good for basic transactions, but they are unable to cope with more complex products and sales transactions. While the look and feel of different channels might be the same, cross-channel functionality is limited; and customers cannot easily switch from one channel to another without repeating themselves.

Best Practice

Lessons for those banks failing to achieve excellence are clear—there are specific targets to aim for, across all channels. The best branches have a hotel lobby style

Exhibit 3
Best Performing Banks for Each Channel



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

appearance, and the best call centres have short waiting times and instant connections to real people rather than to lengthy recordings. The best websites have unbeatable security complete with security certificates, PIN cards, and even random number generators. To achieve the gold standard for certain segments, banks should aim to offer:

- Advisers with immediate access to customer information who are able to suggest a range of alternatives based on that customer's history and circumstances
- Private meeting rooms
- Specialist advisers, available immediately, both on the telephone and in branches
- Minimal hand-offs
- Holistic solutions
- Dedicated staff, offices, websites, and call centres for the mass affluent market.

Get the Basics Right in Branches

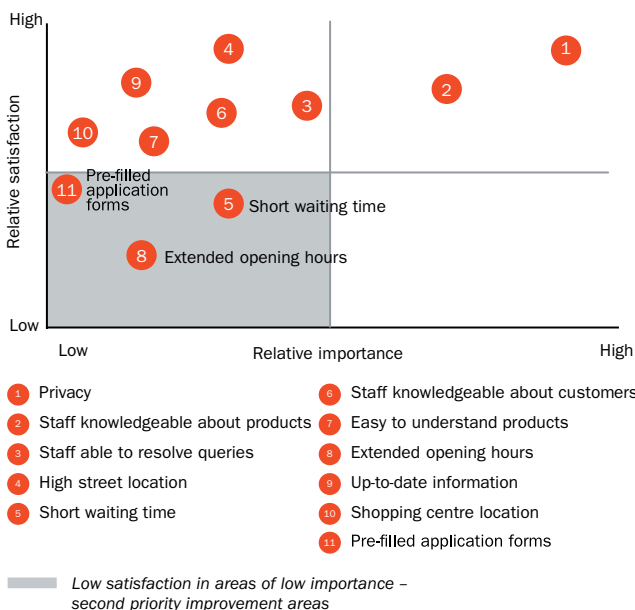
Despite technological advances and the shrinking of networks in many countries, customers still want to do

most of their banking in branches. It is their preferred purchasing channel for all products, but especially for current and savings accounts and mortgages. Interestingly, the largest shift is a migration away from branches towards mobile sales forces. This shift demonstrates consumer preference for other face-to-face channels and might be explained by the fact that banks are still struggling to get their branches right.

Goals: The secret to successful branch management is to get the basics consistently right. Customers should be welcomed; appointment systems and sales processes must be sleek and very well organised. Appointments should be confirmed by text message or email, and advisers should be able to sell more than one product at a single meeting. The mass affluent should be offered a differentiated service, with a sense of exclusiveness evoked through increased privacy.

Performance: Although average service levels are higher for branches than for any other channel, there is still a significant difference between the performance of the best banks, which are at or near excellent, and the rest of the pack. In product knowledge and transactional capabilities, performance is high;

Exhibit 4
Branch: Vital Attributes–Relative Importance v Satisfaction



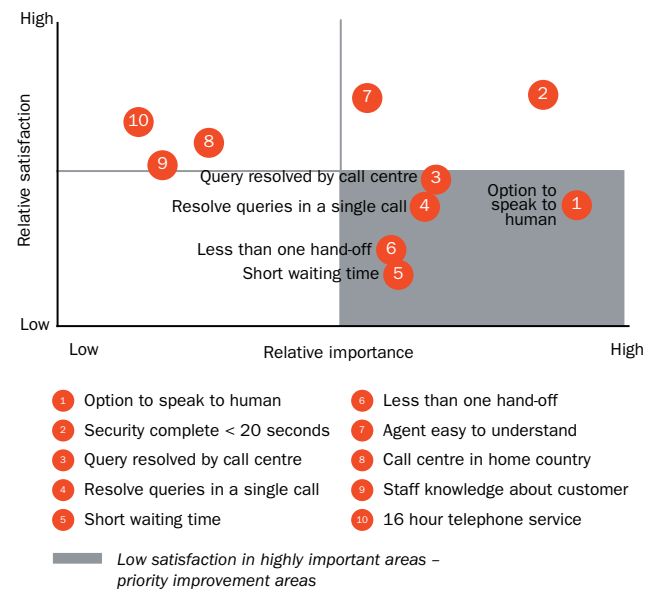
Source: Booz Allen Hamilton Revenue Enhancement Study 2007

but segmented offerings and customer insight are weaker. The best retail bank branches provide a hotel lobby style appearance, concierge, and interactive information. Their staff have immediate access to customer and product information, and meetings with specialists can be booked in advance.

No More Hanging on the Telephone

Call centres are becoming a less popular purchasing channel for customers, with just seven percent saying they would open a savings or current account over the phone, and only 10 percent opting to apply for a mortgage from a call centre. Buying by phone is more popular for credit and general insurance products; but overall, call centres are losing out to online channels, primarily because it takes too long for callers to get through to the right person. In this context, banks might need to revisit their call centre strategy; and enhance call centre performance as well as consider use of complementary channels.

Exhibit 5
Call Centre: Vital Attributes–Relative Importance v Satisfaction



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

Goals: Changing the game is necessary for banks if they want to deliver a superior customer experience and drive profitable growth in their call centres. With the option to speak to a human considered the most important factor, the key to improving the customer

experience lies in making it a simpler and less irritating process by minimising the number of hand-offs. Staff should be trained to deal with all general queries and trained on at least one specialist product. Dedicated specialists with training in several product areas should also be available. In addition, advisers should have access to customer records with details of prior calls; and a system should be implemented whereby, if a hand-off is necessary, customers are not required to repeat their information. Inbound calls should be treated as an opportunity to strengthen customer insight and to offer customers relevant products, based either on their particular query or on their circumstances.

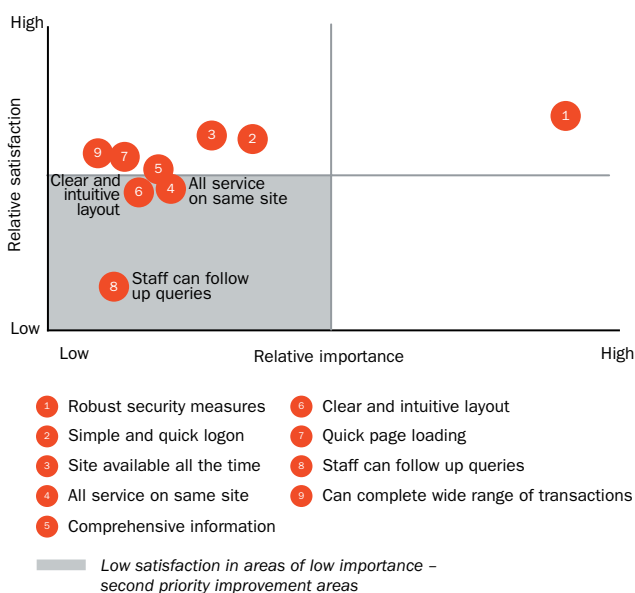
Performance: Banks in Hong Kong and China set the standards for customer service in call centres, offering instant connections, 24-hour access, multilingual specialists, and segmented call centres for mass affluent customers.

Banking in Cyberspace: Differentiation is Key

Customers—especially mass affluent customers—are increasingly demanding the opportunity to purchase products and transact online, and this trend is likely to accelerate as broadband connections reach more and more homes worldwide.

Exhibit 6

Online: Vital Attributes – Relative Importance v Satisfaction



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

Goals: Security is absolutely paramount in the online channel. Banks need to develop systems that combine sophisticated security mechanisms—multiple passwords and virtual keyboards—with simple logon procedures. Secure sites are an ideal sales channel because they offer a unique opportunity to tailor product alerts and offers to the individual. However, because not everyone is comfortable with technology, banks should be able to provide live technical support as well as answers to product queries. Given the importance of the internet to time-poor customers, banks must develop websites targeted solely at the mass affluent if they are to fully exploit this segment.

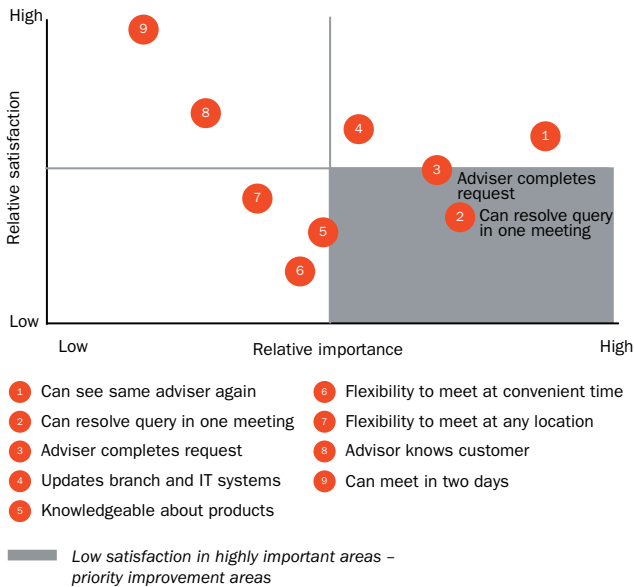
Performance: At the very best banks, performance in the online channel is near perfect in all areas. However, global performance is much less impressive, with most banks achieving average scores, especially with regard to a segmented offering, where scores are weak. South Korean banks are leading the field in online banking, offering innovations such as secure sites that can be personalised, security codes from separate devices, and dedicated websites for the mass affluent.

Greater Mobility Required

Mobile sales forces are a popular way of purchasing products—in particular more complex products, such as pensions and investments—but they are not widely available in many countries. Brazil, Hong Kong, the UK, and Australia are among the few markets where mobile sales forces are extensively and successfully deployed.

Goals: Mobile sales forces should be an integral part of a bank's mass affluent service. As such, the development of sophisticated appointment systems is crucial as the target market is demanding and time poor. Most important is to give mobile sales force advisers the ability to complete requests—connectivity and empowerment are key to success in this channel. Both specialist and generalist sales advisers should be available; there should be flexibility on the timing and location of meetings; and customers should be reminded of their appointments by text message. Follow-up is also crucial—banks should send out meeting summaries by letter or mail; and where possible, customers should be able to see the same adviser on more than one occasion.

Exhibit 7
Mobile Sales Force: Vital Attributes–Relative Importance v Satisfaction



Source: Booz Allen Hamilton Revenue Enhancement Study 2007

Performance: Very few banks offer mobile sales forces, and overall performance among those that do is relatively poor. The service tends to be limited to the mass affluent, and then only where customers are seeking to purchase complex products, such as investments or mortgages. There are, however, a handful of banks that achieve excellence in this field, offering flexible meeting times and locations, well-informed advisers, and in some cases, sending out account managers along with specialist advisers to cement relationships and improve customer insight.

Multichannel Integration, Only Where it Matters

Multichannel integration, across all channels and all products, is not a priority for consumers. However, consumers choose channels on a holistic basis and, for some products, expect to be able to move across certain channels without having to repeat themselves. A key priority for banks is to identify the products and channels where integration matters to their customers.

Goals: Integration is about more than just a consistent look and feel. Banks should concentrate on delivering a joined-up service and value

proposition across selected channels and products is a key part of success. For example, customers might start a mortgage application online and complete it in a branch. Banks should be taking advantage of new technologies to broaden the range of channels they offer; for example, using Skype and exploiting opportunities in cyberspace. In addition, all channels should have segmented offerings for the mass affluent.

Performance: A limited number of banks are offering all major channels with extras such as Skype and SMS, mobile phone banking, and special channels for the deaf. However, overall performance is weak, with even the best-in-class banks failing to achieve excellence in this area.

Raising the Game in Retail Banking

Booz Allen's research shows there are clear opportunities to enhance revenue in retail banking. Going forward retail banks need to:

- Provide dedicated channels (website, call centre, mobile sales forces and specialist areas in branches) for mass affluent customers.
- Reduce waiting times in branches through the use of welcome desks (concierge concept) and the option of making appointments in advance.
- Efficient call centre menus and staffing that enable customers to quickly reach people who can resolve their queries.
- Enable customers to tailor websites, supported by strong security measures (e.g. random number generators).
- Offer mobile sales advisers who can complete transactions at the meeting, for selected customer groups.
- Enhance the ability to commence a transaction on one channel and complete it on another.

In addition to the global themes identified in this study, a set of country-specific insights have been developed

to help banks improve performance across channels on a local basis. Countries included in the study are Austria, Australia, Brazil, Canada, China, Germany,

Hong Kong, South Korea, Kuwait, Netherlands, Saudi Arabia, Spain, Switzerland, Thailand, United Arab Emirates, United Kingdom and United States.

Methodology

Booz Allen's 2007 Revenue Enhancement Study set out to test the role of sales channels in revenue generation, taking as its starting point the fact that, across the globe, retail banks' drive to improve efficiency through cost reduction has been offset by a decline in revenue generation.

The study followed a two-fold approach:

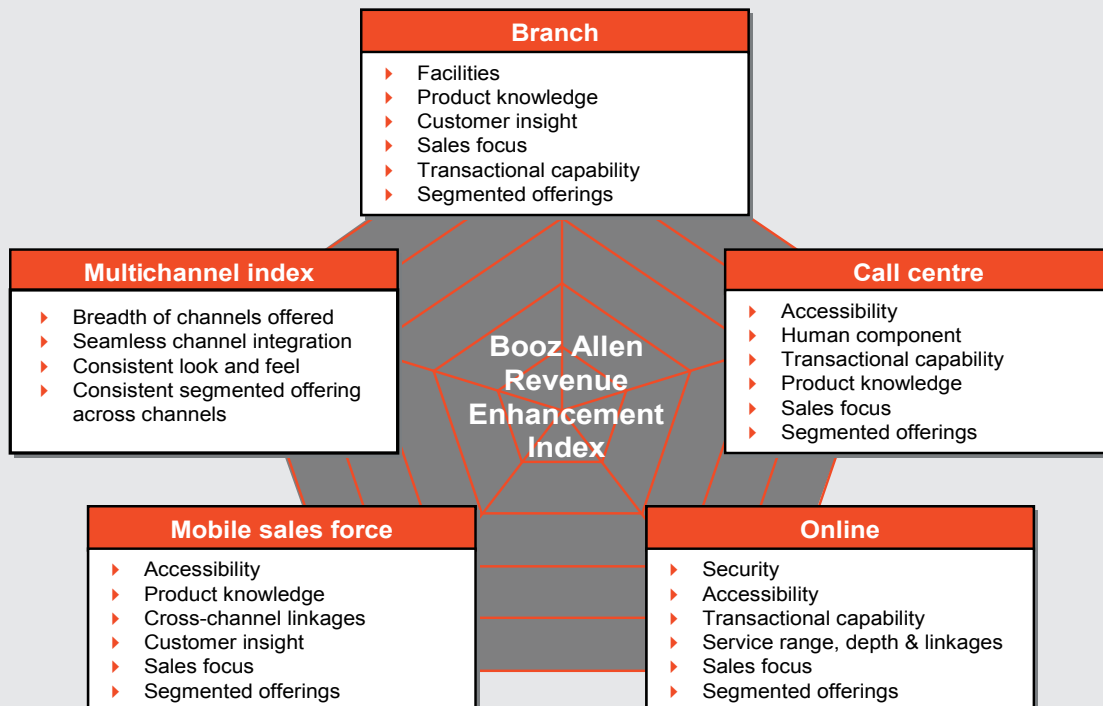
1. MORI Ipsos, the independent consumer research company, was tasked with undertaking interviews with banking customers in Europe, North America, Asia, Latin America, and the Middle East. Research covered 17 countries and assessed consumer preferences for each distribution channel and overall satisfaction levels.

2. In addition, Booz Allen carried out an extensive mystery shopping exercise at 100 banks, focusing on the consumer experience. This included a shopping and servicing questionnaire in a number of branches for each bank, plus Internet assessment, telephone calls to call centres, and shopping with mobile sales forces.

Based on the findings of this research and the mystery shopping, Booz Allen defined five individual channel indices to measure banks' performance: branch, call centre, online, mobile sales force, and a multichannel index. When these indices were weighted by consumer importance, this formed the Booz Allen Revenue Enhancement Index Score, which was used to rank banks' performance across the main channels.

Exhibit 8

Booz Allen Revenue Enhancement Index



What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organization and change, and information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 19,000 employees on six continents, the firm generates annual sales of \$4 billion. Booz Allen has

been recognized as a consultant and an employer of choice. In 2007, for the third consecutive year, *Fortune* magazine named Booz Allen one of “The 100 Best Companies to Work For,” and for the past eight years, Working Mother has ranked the firm among its “100 Best Companies for Working Mothers.”

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

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