Multichannel Banking:
Unravel Complexity to Turn Ambitions into Reality
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**Executive summary**

Multichannel distribution ("multichannel") is a subject that has created high hopes within the banking community but also disillusionment and controversy, with the prediction about gradual closure of branches as yet unrealized, and the commercial contribution of remote channels still insignificant. Frustrations are amplified by the substantial level of investment involved in moving from a branch-based to a multichannel service model that has so far failed to convince, both in containing distribution costs and in increasing revenue.

**Our approach**

In order to cast some new light on multichannel distribution, Oliver Wyman conducted a survey involving 30 top retail banks from five major European countries: France, Germany, Italy, Spain and the UK. This survey aimed at comparing current approaches to multichannel, as well as understanding objectives and priorities that major retail banking players have set for the next three years.

Results from this survey clearly show that multichannel is higher on the agenda than ever, and that most of the more advanced players expect fast-growing channels like the Internet to contribute (directly, or indirectly through lead generation for the benefit of branch advisors) up to twenty per cent of their unit sales in the coming three years. At the same time, these banks will seek to optimize their distribution costs and better integrate their clients’ channel preferences in their approach to relationships. However, fulfilling the multichannel promise still represents a challenge for most retail institutions, whose distribution model is still only somewhat diversified, and not properly co-ordinated or cohesive.

Another major conclusion is that we have not found major gaps in individual country results, while differences between slow-movers and best practices in a given country are more significant. Moreover, discussions conducted with major players from other European countries that were not formally covered in the survey indicate very similar results in terms of approaches, objectives and priorities for multichannel banking.
A strategic opportunity worth fighting for

In an environment where opportunities for retail banks to differentiate and create value are increasingly shifting from product to distribution, several structural factors justify efforts to pursue the multichannel agenda:

- Growing client acceptance and appetite for multichannel banking, across a wide range of age groups and income levels.

- Robust growth of client contacts initiated through direct channels, thus strengthening the argument that the client-bank relationship model must move beyond the branch-only model.

- Favourable demographics with more and more representatives of “Generation Y”, who tend to use a wider variety of channels, starting to use banking services.

- Sales generation increasingly focused on the ability to exploit cross-selling and up-selling opportunities after the initial contact has been established, thus making it critical to leverage all sources of client interaction.

- Contribution to a reduction of operating costs through optimising very different distribution, servicing and marketing costs for various channels.

- Potential to reinvigorate retail bank’s value proposition, with multichannel presenting an opportunity to differentiate from competitors in uncharted territory, in which improving the client experience remains a genuine challenge.

European retail banks will focus their efforts on three main areas to unlock the potential of multichannel distribution:

1. Optimising the potential of each distribution channel.

2. Improve integration of clients’ channel preferences.

1. Optimising the potential of each distribution channel

Retail banking institutions must exploit the potential of individual distribution channels while establishing the foundation for a sound and more integrated distribution strategy:

- **Branch is dead, long live the branch.** Reinvigorate the contribution of the physical network through differentiating the role of branches, while at the same time leveraging the potential of other channels, as well as new distribution approaches such as a mobile sales force. The objective is to introduce multichannel approaches to the branches themselves, thereby helping to inform clients as well as advisors about the uses and benefits of alternative channels.

- **Unlock Internet sales potential.** Take advantage of the high frequency of transactional contacts to position the Internet in alliance with (rather than as a substitute for) the physical network, to help capture sales opportunities that are difficult to track and convert in the branches themselves. This approach requires the use of specific promotional approaches learned from non financial e-commerce players, to sustain client interest and compensate for the absence of an individual physical advisor.

- **Reposition call centres along multichannel lines.** In an environment where call centres face challenges within both their transactional and sales development support roles, there would be three aspects to their repositioning:
  - Contribution to branch lead generation.
  - Support Internet development through offering the assistance and reassurance that clients expect.
  - Enhancement of high value clients’ banking experience, through the provision of specialised resources that support branch-based distribution.

- **The mobile phone expansion.** Even if there is no doubt about the growing role the mobile phone will play in the next three years, there is uncertainty about whether it will constitute a core channel, or merely act as a complement to others. This will depend primarily on the appetite of clients and banks for the mobile phone, as well as its technical capacity to play a central role in payments. It will also need to demonstrate that it can offer substantial assistance to sales and servicing efforts through its unique ability to offer immediate client access.
2. Improve integration of clients’ channel preferences

Banks have invested heavily to enhance their ability to acquire knowledge of clients, leading to numerous tools and approaches. However, the vast amount of captured information has still had a limited contribution in forging a truly personalised client relationship, stated by two thirds of our survey respondents to be the main opportunity offered by multichannel.

Improving their “Know Your Customer” (KYC) and “Customer Relationship Management” (CRM) capabilities in a multichannel environment will require banks to improve the organisation and prioritization of client interactions across the various distribution channels. Moving from “everything for everyone on all channels” to “the right product at the right moment on the appropriate channel” will mean:

- **Segment service and sales models according to true channel behaviours** since classic distribution models based on client value fail to capture the reality of client needs and experience.

- **Design more differentiated channel roles by segment**, allotting key, secondary or residual role to each channel for principal interactions (acquisition, cross/ up selling, servicing, retention), all for the various client segments served.

- **Select, track and manage the right information**, identifying within the massive flow of information captured by banks which client and product events need to be proactively monitored, given the commercial potential they represent, this using the optimal channel.
3. Making retail institutions “multichanneled”: aligning organisation and processes

Building a multichannel approach is still a challenge, with the client experience still generally characterised by limited opportunities to:

- Initiate inquiries on a given channel and recall or complete them on another.
- Experience consistency of information provided by the various channels.
- Liaise with advisors who are fully aware of clients’ activities on direct channels.

This situation emanates from an environment in which channels are mostly managed in “silos” within banks. To turn multichannel from a concept to reality, it is therefore necessary to:

- Delineate responsibility for multichannel coordination more clearly.
- Redesign processes to improve sharing of information across channels, but also enhance the capacity to achieve end-to-end processing on each individual channel.
- Measure the effectiveness of multichannel through Key Performance Indicators (KPIs) that track the contribution of multichannel to sales performance and cost containment.
- Integrate multichannel development into the performance objectives and reward system for managers.
Setting the scene

1. Large investments on multichannel architecture but limited control of economic return

During the last decades, European banks have heavily invested to move from a branch-based to a multichannel service model. As a result, multichannel is now a major investment area in the banking industry. The story started with the ATM diffusion in the 1970s, continued with the concentration on call centres during the 1990s, with the last decade characterized by the growing importance of the Internet.

This trend of significant investment will not decrease. Results from our survey show that even if the branch is still at the top of banks’ investment priorities, direct channels have acquired a very strong position and their importance is expected to increase further, owing to the increasingly dominant role of the Internet.

Exhibit 1: Investment priorities in channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>1st Priority</th>
<th>2nd Priority</th>
<th>3rd Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>80%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>80%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td>50%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Phone Banking</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis
By developing their direct channels in order to support their branch-centric distribution model, banks have faced increases in their operating costs that have only been partially offset through the decreasing costs of handling low value transactions. Indeed, there is actually limited evidence that growth of multichannel has led to a significant drop in the cost of serving of low-value clients. This is confirmed by respondents to our survey: 70% rank the improvement in cost of service among their top three priorities for their multichannel architecture.

Exhibit 2: Priority objectives for the development of a multichannel architecture

<table>
<thead>
<tr>
<th>Objective</th>
<th>% of banks ranking each objective in their top 3 priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop up-sell and cross-sell</td>
<td></td>
</tr>
<tr>
<td>Improve level of service and customer experience</td>
<td></td>
</tr>
<tr>
<td>Improve cost to serve</td>
<td></td>
</tr>
<tr>
<td>Develop acquisition of new customers</td>
<td></td>
</tr>
<tr>
<td>Improve Marketing ROI</td>
<td></td>
</tr>
<tr>
<td>Develop market share in new businesses</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

Tracking the tangible benefits of multichannel is also a challenge, with a majority of our surveyed banks still lacking some operational Key Performance Indicators (KPIs) to support the monitoring of channels’ contribution to the principal stages of the client relationship (new sales, customer acquisition, customer retention, cross-selling etc.). In this context, it is difficult to secure investment and prioritisation. Expenditure on multichannel is still often determined by a qualitative rather than data-proof process.

Ensuring optimal economic return both in cost reduction and revenue enhancement is therefore currently a key priority, as channel availability and functionality are increasingly already in place.
2. Multichannel banking: now a reality in terms of customer interactions

Even if its contribution to the bottom line remains unclear, multichannel banking is now a reality in most European countries. Our recent project experience throughout Europe tells us that, on average, as much as two thirds of all standard banking transactions are carried out through direct channels, assisted by technological developments (growth of broadband use and innovative and user-friendly smart ATMs etc.) as well as an increasing acceptance and appetite from clients.

Participants in our survey strongly confirm the growing importance of direct channels among the customer’s interactions, (Exhibit 3), even if branches remain the core sales and servicing channel:

- The Internet clearly emerges as a serious challenger to branches when it comes to transaction management or the provision of customer information (for one third of respondents, the Internet is already the preferred channel). In continental Europe, it is estimated that 30-40% of banks’ customers regularly use the Internet to access their account and perform transactions. But the role of the Internet is not only focused on transaction management, it is also an important source for gathering general information and comprehensive product comparisons before a customer commits to a purchase. Our recent research actually showed that up to 40% of customers have used on-line research when considering subscribing to financial products, even if just 10% finally purchased online. The popularity of web-based comparators and brokers like FinanceScout24, MoneySupermarket or Meilleurtaux.com has grown significantly across Europe.

- For 60% of our survey respondents, call centres play a central role for customer care and process enquiries. Together with branches, call centres are the preferred channel for this particular interaction.

- ATMs are obviously mostly used for cash withdrawals (80% of total ATM operations). However, a growing number of players are trying to take advantage of this huge source of contacts to sell new services (such as phone cards), while at the time being conscious of the continued need for speedy transactions to maintain the high accessibility of ATMs.

- The mobile phone still appears marginal, but significant development is expected in the next three years.
Exhibit 3: Importance of the channels in the client relationship from banks’ perspective

Average ranking for each type of interaction from 1st to 5th

3 years’ trend

Information
Consultation
Transaction
Subscription
Customer care

Source: Oliver Wyman analysis

It is also important to stress that even if direct channels are now a reality in terms of diffusion and client acceptance, some generation disparities still exist, as displayed in Exhibit 4. It is notable that younger clients (below 35) already use more online channels than branches for their banking interactions.

Exhibit 4: Banking channel usage according to age of clients

% of clients regularly using proposed channels

Source: Oliver Wyman analysis
3. A client experience and a potential still limited by organisational and operational hurdles

The internal silo approach still hinders the progress of the multichannel programme, despite significant investment and effort. This approach results from the gradual, sequential addition of non-branch channels, without an overarching coherent strategy to ensure that a multichannel system was embedded within the entire organisation. Legacy IT architecture also presented a major obstacle to the necessary transition.

This context has limited the ability of banks to convert a growing non-branch contact base into sales opportunities. More than 70% of our respondents report that non-branch channels still account for less than 5% of their unit sales for most of their products (with better results generally only for low-revenue products) and that branch-based Relationship Managers have not fully seized the opportunity to generate leads from other channels.

From an organizational and operational standpoint, our survey suggests that multichannel is still often a distant concept rather than a practical reality:

- Only one third of respondents integrate client channel stated preferences and/or actual behaviours in their client segmentation.

Exhibit 5: Clients’ channel behaviour tracking and integration to client segmentation

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Integration to client segmentation</th>
<th>Clients’ channel behaviour tracking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis
Fewer than 20% of respondents have integrated branch and direct channels within a common management structure (Exhibit 6), thus preventing the co-ordination of distribution along genuine multichannel lines. A problematic lack of ownership is also evident. Whereas more than two thirds of direct channel managers are accountable for the service level and the effective cost management of their channels, only 20% of them have a P&L responsibility.

Exhibit 6: Management line for direct channels

<table>
<thead>
<tr>
<th>Management Line</th>
<th>% of Respondents (incl ATM, Call centers, Internet, M-bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Together with branch</td>
<td>10%</td>
</tr>
<tr>
<td>Within IT&amp;Ops</td>
<td>5%</td>
</tr>
<tr>
<td>Within a direct channel unit</td>
<td>15%</td>
</tr>
<tr>
<td>Varies upon direct channels</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman analysis

This reality creates potential resistance from the branch network to supporting the development of other channels. 40% of our respondents see this internal resistance as among the key challenges facing their multichannel development.
A strategic opportunity worth fighting for

Even if multichannel remains an organisational as well as operational challenge, several key factors justify banks’ efforts to develop their multichannel capabilities in an environment where opportunities to differentiate and create value are increasingly shifting from products to distribution:

- **Growing client acceptance**: multichannel development is supported by a growing acceptance and appetite from clients of all age groups and income levels, who are now very much accustomed to e-commerce and Internet use (for news and information, booking hotels and flight tickets, mobile phone top up etc.). In this context, players able to convey the benefits of alternative channels and overcome the residual reluctance caused by limited functionalities or the perceived lack of comfort and security, will be best positioned to unlock multichannel potential.

- **Substantial contact base**: the robust growth of direct channel contacts more than compensates for the steady decline of in-branch traffic. Participants to our survey report an average of 80 to 100 visits per year by their Internet client to their online banking space, i.e. a frequency five to six times more significant than observed in their branch network (even when weighted for non Internet users). The potential for converting some of this contact base into sales leads is significant. Based on recent projects, Oliver Wyman has estimated that the capacity to convert 1% into transactions will result in anything between a 10% and 20% increase in sales.

- **Favourable demographics**: the implementation of a multichannel strategy should yield results in the medium term by laying the groundwork for the acquisition of a large proportion of tomorrow’s clients – the “Generation Y” cohort which is gradually entering the market. This generation (those born between the early 1980s and the mid-1990s) is the second largest in Europe after the 80 million Baby Boomers, and will be an increasingly significant revenue contributor in the future. Gen Y people are known as “channel zappers”, relying much more on new media and are happy to combine remote and physical channels. To attract and retain this strategic segment, banks will have to offer a genuine and consistent multichannel experience.
Sales generation mostly driven by cross-selling and up-selling: after a decade where banks have concentrated their efforts on extending clients’ “first-time” product equipment, they have now entered a period in which sales generation will increasingly result from cross-selling and up-selling opportunities. Value creation in retail banks is thereby related more than ever before to their ability to exploit all sources of client interaction, irrespective of the type of channel used. Players who will be able to offer a true multichannel experience will therefore be better positioned to take advantage of cross-selling and up-selling opportunities. Our survey respondents support this view, with 85% of them stating that an increase in cross-selling and up-selling is among the main objectives of multichannel development.

Cost Management: continuous downward pressure on average revenue per customer\(^1\) has been increasing banks’ focus on costs and challenging the traditional distribution models. According to the Oliver Wyman 2009 European Retail Banking Cost Survey, distribution costs (marketing, branches and remote channels – see Exhibit 7) represent an average of 55% of all banks’ spending, with peaks of up to 65-70% in Iberia and Italy. As a result, distribution is surely the most potentially fruitful area to seek significant savings, and multichannel strategy will play a crucial role in this respect. The steady migration of low-value transactions away from the branch allows the gradual reduction of cashier headcounts, through not redeploying them on other activities or not replacing them when retiring. Additionally, given the highly varied cost of contacts for different channels, a more multichannel-oriented contact management allows the optimisation of marketing costs, by focusing on those channels most likely to lead to higher client value and sales conversion rates.

\(^1\) CAGR \((-5\%\) in majority of European markets during the three-year period before the current crisis
Strong opportunity to reinvigorate the retail bank’s value proposition.

We believe that building a compelling multichannel value proposition is key to enabling banks to differentiate themselves from their peers. Such a proposition is also critical to competing effectively with direct players that have started to position themselves as a credible alternative for those customers who do not require much interaction with their Relationship Manager. More than 70% of banks surveyed considered that improving the level of customer service and experience is a top three objective for multichannel. In particular, the most fundamental elements in the value proposition should be: ensuring proper communication and interaction between channels, the provision of consistent advice and information to the customer, and the establishment of the most effective channel combination per client segment.
Key levers to unlock multichannel potential

We see three levers as the key to unlocking multichannel potential and ensuring a properly integrated and efficient distribution model, while at the same time maximizing its economic contribution.

A. Optimize the potential of each distribution channel, remove perceived obstacles, unlock hidden value.

B. Enhance integration of clients’ channel preferences to achieve a genuine multichannel client experience and improve contact management.

C. Align organization and processes to steer business in a multichannel direction.

1. Optimize the potential of each distribution channel, remove perceived obstacles, unlock hidden value

High-performing banks have to excel within each distribution channel while keeping in mind the broader multichannel view. Focusing on unlocking the hidden value of each channel will allow them to exploit untapped opportunities, while setting the foundation for securing a sound and more integrated distribution strategy.
1.1. “The branch is dead, long live the branch”: opportunities to reinvigorate branch contribution to multichannel distribution

From our survey and recent project experience, we believe that branches are and will remain at the heart of retail banks’ distribution strategy:

- They remain the undisputed premier channel for client acquisition.
- They play a central role in converting leads and contacts into tangible sales.
- They are the preferred channel for the provision of advice, itself often involving financial decisions (needless to say that in this respect the client relationship in banking is much less transactional and far more complex to dissect than in other industries).
- They attract, even with a wide local variance, a considerable number of people due to cash-based transactions that are still processed in ATMs in or next to branches.

However, the branch network faces challenges, both from revenue and a cost perspective:

- On the revenue side, the steady decrease of transactional contacts spurred by the clients’ growing acceptance and confidence in remote channels creates the risk that clients will gradually move away from their Relationship Manager and their branch.
- On the cost side, in a price-competitive and low-growth retail environment, there is a strong pressure to contain and reduce what represents, on average, 50% of total operating costs.

Given this background, and the experiences shared by our survey participants, there is a growing appetite to consider more differentiated roles and formats for branches. Historically, banks have generally differentiated themselves from their local competitors primarily through the size and depth of advisory skills available. We believe that in the future they will also consider how multichannel and new distribution approaches can support revenue development and cost containment, while improving client experience. They will attempt to achieve these objectives through differentiating small branches (typically with the equivalent of 3 to 4 full-time staff (FTE)) from medium (5-9 FTE) and large branches (10+ FTE).
Case studies: Transforming branches

Branches are facing new challenges given the growing importance of non-branch contacts and the pressure on operating costs. In this context, we see various examples of innovative approaches that have in common the following characteristics:

- Promote multichannel in the branches and go against the classical dichotomy between “traditional” and alternative channels.
- Gain experience in a trial and error environment by means of pilot branches, since this is critical in understanding both clients and the Relationship Managers’ interest in, and acceptance of, these approaches.

1. Bring multichannel into the branches

Within the context of declining traffic in branches, many players have reinvigorated their ATM strategy, positioning them as true self-banking units directly located in (rather than outside) the branches. The objective is to bring back clients into the branches (going as far as using Radio Frequency IDentification – RFID – to detect and proactively approach clients rarely seen by their advisors, but visiting the branch) as well as further automating cash and current account based transactions.

**Unicredit** has set up an innovative ATM space in all its main branches, with well-trained staff helping customers to complete day-to-day simple operations (money transfer, cash in, cash out, check account balance and information, check credit and so on). The bank recently announced a €200MM investment plan over the next 5 years to continue bringing remote channels into the branches. **Intesa Sanpaolo** has transformed some small branches in “no cashier branches” with a fully automated ATM area inside the branch available 24 hours a day, and **BBVA** has introduced branches with express areas focused on smart ATMs that offer an extended number of transactions (involving cash in and cash out). **HSBC** has implemented a “floormanager/matchmaker” strategy in more than 100 high traffic branches to better filter and direct clients in the branches, and optimizing waiting time and ensuring quality of service.

2. Lite format to acquire customer base at a lower cost

**Che Banca!**, a newcomer in Italy has developed “lite”-branch formats strongly focused on acquisition. This can take the form of mobile branches implanted in shopping centers with extended opening hours, or participation in outdoor events (such as trade fairs or stands in pedestrian areas).

3. Specialized and mobile Relationship Managers

In order to better deliver the advisory promise to its clients, **ING** has introduced Relationship Managers in its large branches focused on high stake products and needs (such as mortgages, investments, pensions, insurance).

In urban areas, we believe that to fully exploit the potential of these specialists, they should also be incentivised to prospect and service high value clients who are difficult to meet in the branch, visiting them directly at home or at their place of work. These mobile Relationship Managers are in our experience a key differentiation from a client perspective and offer a unique chance for banks to demonstrate their commitment to deliver personalized and high quality advisory services.

4. Expertise around the corner

If delivering high quality advisory in large branches remains a challenge, this challenge is simply impossible to meet in small branches where local expertise cannot be justified from an economic standpoint. The situation cannot however be ignored in a commercial environment where small branches can represent as much as 50% of the total network. As an alternative to “physical” expertise, several banks are piloting visio- or webcam-based advisory services. If such approaches did not really convince when the client was asked to interact remotely by himself, they deliver more interesting results when the client sits together with his usual generalist Relationship Manager, the two of them interacting with a remote expert.

**Intesa Sanpaolo** has launched some pilot branches with a video conference system targeting interactions with affluent clients; **Banesto** and **Bankinter** are other examples of institutions investigating similar approaches.
**Small branches** that help to expand client coverage and sustain brand visibility often create major challenges with regard to profitability and growth. Multichannel can help in several ways to improve the bottom line:

- Further increase automation with the objective of eliminating the need for cashiers, through exploiting opportunities offered by smart ATMs and Internet points for cash-based and other simple transactions.

- Make better use of the significant Internet and call centre contact base and customer relationship management capabilities to generate leads that can be converted by the small team of generalist Relationship Managers.

- Introduce advisory capability that cannot be delivered physically. Promising pilots have been conducted in this respect using video conference/webcam facilities where the client interacts, either directly or together with the local Relationship Manager, with a remote product specialist. This approach would involve a pool of specialists that can serve a large number of small branches. At present, even the specialist covering several branches in a particular geographical area is difficult to justify from an economic standpoint.

**Medium-size branches** will, in our view, be positioned as a provider of an integrated multichannel value proposition, avoiding the traditional separation (both from a client and Relationship Management perspective) between automated and RM-delivered services. In these branches, smart ATMs and internet points must be located in easy-to-access and central areas supervised by floor managers who act as a core component of branch life. These floor managers can help to educate and assist clients about self-banking, while exploiting the sales potential of incoming traffic (for example, by identifying the high value clients rarely seen in branches and redirecting them to Relationship Managers).

This new multichannel role for branches will undoubtedly lead to some cultural resistance among staff, with ATMs or direct channels often perceived as threats to their role. Consistent communication, education and incentives, all insisting on the importance of the multichannel strategy and stressing the complementary role of direct channels should help to align branch staff behaviour to multichannel. This educational dimension, both for clients and branch staff, is critical and was mentioned by more than half of our survey respondents as one of the major obstacles to multichannel development.
Larger branches, positioned in the densest areas with the most commercial potential, will be in a better position to meet the higher expectations with respect to advice and expertise from more challenging and sometimes disenchanted clients. In fulfilling this task, generalist Relationship Managers can be supported by specialists focused on high-stake products and needs that are critical in the relationship (mortgage, investments, insurances, pensions etc.). To get the best out of such specialists, we believe they should be incentivised to act also as a mobile advisory force, seeking out and servicing high-value or high-potential clients that are rarely seen in branches. This mobile advisory force would nurture trusting personal relationships, visiting elderly clients at home with a powerful value proposition or busy affluent individuals at their place of work. They would have more time to discuss complex issues, together with opportunities to meet and cultivate relationships and to present specific products and services that can only be introduced in the context of a one-to-one interaction.

In these large branches, some players have started to investigate the possibility that their local franchises manage their in-branch space as traditional retailers, optimising revenues per square metre through the offering of non-financial products (mobile phone subscription, real estate services, utilities subscriptions etc.). However, results generated by these non-core activities to date appear fairly marginal.

1.2. Unlock Internet sales potential: exploit and convert massive and fast-growing client contact base

85% of our survey respondents have stated that the development of cross-selling and up-selling opportunities to be among their top three multichannel priorities. There is no doubt that the Internet will play a pivotal role in this respect, being among the top two investment priorities for three respondents out of four (and the number one investment priority for 40%) and producing a flow of contacts five to six times larger than branches do. Surveyed banks have high ambitions for Internet’s sales potential, since it will create most of the sales growth expected on direct channels (estimated to reach one fifth of total unit sales, compared to the current general estimate of below 5% for most products). However, we still see a significant gap between stated objectives and business reality, with most players having not yet really discovered the full potential of the Internet. Banks’ institutional and secured websites are still quite transaction-oriented and their commercial content generally only replicates what it is available in the branches (same product scope, same product features, same catalogue, same pricing, same promotional rules etc.).
We believe the Internet should not be considered identical to what clients can find in branches, but instead be used in synergy with, rather than as a substitute to, the physical network.

We see three main areas in which the Internet can support branches:

A. Initiate sales to be closed in branches

This dimension is related to the use of the Internet in preparation of meetings with Relationship Managers. Customers can themselves define the main components of their offering, according to their needs and profile. Relationship Managers can then recall these details offered by the client in order to explain and tailor the proposal for their benefit, thus truly acting as an advisor rather than a seller, and securing those clients who generally expect some reassurance from their advisor before subscribing. Moreover, because the initial sale has already largely been prepared on-line by the client, the Relationship Manager can dedicate more time to cross-selling efforts.

The French bank LCL offers a good illustration of this approach. The client selects on-line the various preferred components of his current account offering and then books online a meeting with a Relationship Manager to review terms and close the sale.

B. Support additional sales opportunities difficult to promote in the branch

With the proliferation of products in their catalogue (such as guarantee of online purchases, affinity cards and specific credit and payment protection insurance products), banks have to cope with a collection of offerings that lead to less than one sale per year per Relationship Manager. These offerings could contribute more significantly to revenue development, but fail to do so because of the limited incentive to promote them (due to their low unitary value) and the difficulties inherent in attracting clients at the right time and in the right situation. The Internet can give a much higher visibility to these offering and help to position them better (by promoting them alongside products in which the client is interested, or alongside transactions performed on the secured Internet banking space).

C. Reinforce the relationship with clients who rarely visit branches

High value clients are above average users of the Internet for banking activity (there are 30 to 40% more users in this segment compared to low-value clients) while the frequency of their visits to their Relationship Manager in the branch tends to be below average. This reality is amplified for clients aged between 35 and
who are the highest Internet users but find it hard to visit their Relationship Manager (except for specific events such as a mortgage application) because their professional schedule is rarely compatible with branch opening hours. For these clients, we believe the Internet maintains a regular client-bank contact that should be used to generate meaningful leads, based on detailed knowledge of the client. Relationship Managers can capitalise on these leads to meet those high value clients, for example by offering a meeting with an investment specialist to clients inquiring about savings investment decisions on the bank’s website.

Although we believe there are substantial opportunities to exploit contacts originated on the Internet, we are also convinced that approaches have to be differentiated according to the specific product, taking into account two main dimensions:

- Are the particular product characteristics adapted to the Internet – in other words, are they sufficiently well-known to customers and amenable to independent purchase without the necessity for specialist advice (such as savings accounts, debit cards, payment protection insurance etc.)?

- Are the sales processes adapted to the Internet? For example, is a full web subscription possible and are there risks inherent in offering an online subscription? Examining the specifics of various retail banking products and services, we believe that the method in which the product should be promoted on-line and the role the Internet should play to support sales objectives can be divided into four categories:

  - **Products that are easy to transpose to the Internet** (cards, savings accounts etc.) for which an easy-to-use web subscription process can be provided.

  - **Products for which remote subscription can be considered but will still require some offline exchange of information** (such as a consumer finance product) – this is a scenario where we think it is essential to offer the client the opportunity to trace the progression of the subscription process online.

  - **Products for which the Internet can be used in advance of a Relationship Manager meeting**, helping the client and the Relationship Manager to prepare the meeting (through general information sharing and use of diagnosis and simulation tools), but where some direct Relationship Manager contacts will always be needed (for example, for securing mortgages).
Products that can increase in visibility through the Internet – this will require rethinking their presentation and fully using the interactive capabilities of the Internet (videos, simulation tools, etc.) to explain products and attract the client’s interest. Such products may include health insurance, new investments or credit products.

**Exhibit 8: Various commercial roles for the Internet depending on product context**

We are convinced that using the Internet to reach sales objectives requires specific promotional approaches to sustain client interest and compensate for the absence of the Relationship Manager’s personal impact. These approaches, that have developed in tandem with the rise of e-commerce, are closely related to those used in non-financial industries:

- **Incentive pricing**: rewarding the client for subscribing online. This can involve various forms of discount (such as waiving the application fee for a personal loan, several months of reduced subscription payments, reduction guaranteed on the next product bought etc.).

- **Temporary promotional offers**: this would take the form of high discounts over a short time period, and similar such approaches which have proven to be very effective when used for mainstream products.
Contextual promotions: clients are offered an attractive pricing based on the specific transaction they are handling. This would include, for example, anti-churn deals where a counter-offer is given to clients looking to switch their custom to competitors. When clients use the web to transfer a significant amount out of their saving accounts, some pure Internet players like currently offer them a special rate that is normally only offered to new clients.

One could argue that these promotional approaches have long been used in the branch network. Although this cannot be denied, we believe they offer some unique features when applied to the Internet, given the specific nature of this channel:

- More individual targeting and context: if the bank is equipped with developed Customer Relationship Management capabilities, it is possible to use personalised propositions to target individuals through the Internet (using the actual transaction context, the history of the client relationship etc.), in a way that is not possible in the branches.

- Increased agility: in comparison to what can be achieved in the branch network, the Internet offers the unique potential to launch (or cease) sales campaigns in days, rotate these sales campaigns much more quickly, or run them together. Each web page is potentially a display window, whereas the opportunities for display in the branch are much more scarce. As in non-financial services, banks can allow their customers to benefit from all offers, regardless of current specific sales campaigns.

- Significantly lower cost per contact: once the infrastructure is established, the cost of the contact with the existing client (pop-up window, page banner, outbound email etc.) on the Internet is marginal compared to promotion costs on other channels. This cost advantage should however not result in excessive solicitation of clients.
1.3. Reposition call centres towards a broader multichannel role

During their golden age in the 1980s and 1990s, call centres were hailed as the remote alternative to branch-based banking. However, the situation has since changed a great deal and call centres now face several challenges:

- **Transaction and information:** other remote channels, notably the Internet, can now deliver the same services with lower costs for both bank and client, together with a good client experience and a high quality of service. Only 15% of survey respondents rank call centres among their top two priority channels for transaction and information management. The remaining 85% cite the Internet and the branch as priorities for these areas.

- **Contribution to sales performance:** experiences here are mixed. Some banks report good sales performance on incoming calls for some specific products and campaigns (there is up to 10% sales conversion for such incoming calls). However, overall results remain unconvincing, which explains that 60% of our survey respondents rank call centres as their third channel for products and services subscription, well below the branch network (the undisputed number one) and the Internet (the second channel for products and services subscription for 70% of the respondents). It is also important to stress that a growing number of banks find the call centre environment is not conducive to sales – some report 20-25% of incoming calls relate to client dissatisfaction queries or complaints. The situation is not that much better for outgoing calls, where an increasing number of clients react negatively to the approach, having been regularly solicited in the past and facing growing commercial pressure from a wide range of companies, such as consumer credit companies, telecom companies and other utilities.

- **Client experience and service quality:** this has also become a concern in a context where many companies have rerouted, to a lesser or greater extent, incoming calls initially directed to the branch or Relationship Manager and forwarded them to call centres. Dissatisfaction and frustration, especially with high value clients, could lead to them to reconsider the commercial and client satisfaction impact of rerouting, notably given that three quarters of survey respondents rank call centres together with branches as the two main channels for customer care.
These challenges aside, we believe that call centres could have a more active and valuable role to play in an integrated multichannel model. The significant investments – in technology, infrastructure and human resources – that have been allocated to call centres can pay off if they are considered in a broader multichannel perspective. We see three (non exclusive) potential roles for call centres:

- **Branch lead generations**: call centres could play an effective role in generating qualified leads for Relationship Managers in the branches, based on a more systematic tracking and follow-up of numerous client and product alerts that are often not processed by Relationship Managers. This is especially critical for small branches where using the full commercial potential of local Relationship Managers has proven to be challenging.

- **Internet support and back office**: as previously mentioned, we believe that the Internet will play an increasing role in generating sales opportunities. This being said, when it comes to financial services, our experience shows that clients need reassurance and that branch-based Relationship Managers may find it very difficult to offer the necessary support, at least in the timeframe desired by the client by now accustomed to speedy internet response. Using call centres to handle growing needs for web call back, chats and email communication, will be in our view a critical element in supporting the development of the Internet as a sales contribution channel in an integrated multichannel environment.

- **Enhancement of high-value client experience**: referring to challenges confronting the physical network, we referred both to the difficulty in providing specialist advice in small branches and in arranging meetings with high-value clients whose diaries are rarely compatible with those of branch-based Relationship Managers. We think call centres can help to solve such difficulties, by pooling specialised resources which can support (by phone, or video-conference) generalist Relationship Managers in small branches and/or serve high-value clients who have limited appetite or time to visit their branch. In this respect, we note that some companies (such as Credit Agricole with “B for Bank” or Unicredit with “First”) have recently launched fully on-line investment services targeting the competitive Mass Affluent and Affluent markets with a value proposition that integrates remote access to specialised and expert resources in order to provide reassurance to clients making investment decisions.
Providing a value-added supporting role for branches and the Internet together with the traditional “phone banking” positioning of call centres is in our view a true organisational challenge, but it also represents a major opportunity to render best use of investments made over the last decade.

1.4. Get prepared for the next mobile phone wave: revolution or evolution?

The use of mobile phones as an information and transaction channel has developed throughout the last decade, mainly in the form of SMS-based alerts (for example for important debit or credit transaction on current accounts or account statement services). It is estimated that up to 80% of European banks offer this kind of service and that 40 to 60% of remote channel users access them.

At the same time, if mobile phones act as the dominant method of client interaction for banks in some emerging or intermediate economies, the picture is somewhat different in Europe where attempts to promote more advanced services on SMS (typically those services that are offered on the Internet) have had limited success to date. The most commonly reported factors for this slow development include:

- Limited client awareness of services currently offered on mobile phones.
- An unclear client understanding of what the mobile phone could potentially offer apart from SMS instant alerts and access to other remote channels, notably the Internet.
- The mobile phone is still often associated with a risk of fraud.

Despite this reality, the last few years have witnessed some developments that should support the progress of mobile devices in a multichannel context:

- Higher than 90% penetration of mobile phones in the adult population, as well as an impressive and sustained penetration among youngsters, promising parity with adult levels in the near future.
- Rapid growth of smartphones that should continue given the success of the iPhone and Android-based phones, which has paved the way for a massive adoption of smart devices and, more generally, “Internet enabled devices” (iPad and tablet PCs).
- Fast development of broadband, coupled with lower client subscription fees, making it easier to place more advanced applications on mobile phones, similar to those offered on a PC.

However, precisely when mobile devices will become a core banking distribution channel remains unclear. Even though more than 80% of our survey respondents expect the mobile phone to grow in importance in the next three years, the same proportion currently ranks it as the least important channel for information, transaction and sales management. We think that three dimensions will be key to determining the actual role to be played by the mobile phone in multichannel distribution:

- **Client and bank appetites:** in the last decade, the Internet has become a key distribution channel, benefiting from significant investment and development within banks and clients’ growing acceptance of Internet-based personal banking. The mobile phone could follow a similar track if both these conditions – banks’ willingness and clients’ readiness – are met. However, investments on other distribution channels and the unclear commercial value of mobile devices could reduce banks’ willingness.

- **Success of mobile devices in the payment world:** mobile devices will play a central role in the payment strategies of retail banks given the wide range of applications it can be used for – as a means of payment, as a leading channel for money transfer and remittances, as a receiver of payment or incentives for benefits, discount, reward. The extent to which mobile devices can play a role in the payment world will influence its significance as a distribution channel.

- **Support of new sales opportunities:** compared to other banking distribution channels, the mobile phone offers almost an immediate access to clients. The risk is that it is perceived to be too intrusive, but used correctly, it can actively support banks’ sales development efforts. Applications for this purpose include simple SMS-based alerts to inform clients of a product expiry, or a one-to-one special offer, and also more contextualized opportunities like the geomarketing (marketing that uses geographical intelligence) illustrated in Exhibit 9. Whatever the particular application might be, the ability to exploit the immediate access feature of mobile phone while avoiding the counter-productive effects of excessive commercial pressure, will be key in supporting mobile phone development in a multichannel context.
What’s with social networks?

Banks are increasingly visible on various social network platforms (Twitter, Facebook, LinkedIn). These platforms offer an opportunity to develop a client relationship in a more informal and less institutional way, gathering and conveying information but also testing interest for new concepts/products or running targeted promotional campaigns.

Just as for the mobile phone, banks demonstrate a growing interest in these networks, due to the impressive and endlessly rising number of active users. If social networks cannot be ignored, they should certainly at this stage be used in a trial mode for new client-centric approaches (affinity models, “voice of the customer”), rather than be seen as a distribution channel.

2. Better integrate clients’ channel preferences

During last 10 years, banks have heavily invested to improve and structure their knowledge of their customer base. Most of the banks have worked intensively on gathering and organizing client information (socio-demographics, products purchased, volumes and revenues per client, number and type of transactions, current account usage, all as shown in Exhibit 10) to understand the customer’s propensity to buy new products, investment style and level of loyalty to a particular bank. This knowledge has usually enabled banks to calculate the customer’s current and potential value, and has assisted all the main marketing initiatives.
However, our survey confirms that this rapid expansion of available information has not been translated into efficient and truly personalised client relationships, cited by two thirds of respondents as the main opportunity presented by multichannel.

Source: Oliver Wyman analysis
Improving their “Know your Customer” and “Customer Relationship Management” capabilities in a multichannel environment requires banks to structure, organise and prioritise client-bank interactions in a better way across the various distribution channels. If moving from “everything for everyone on all channels” to “the right product at the right time on the appropriate channel” remains a challenge, we think this is one that is less technological (as most infrastructure is already in place) than strategic (changing the mindset to prioritise clients over channels) and operational (better using existing information).

This objective will require banks to:

- **Segment service and sales models according to real clients’ channel behaviour:** this, in our experience, is critical since classic distribution models fail to capture the reality of client needs and experience. Typically, higher-value clients are generally intensive remote channel users but, at the same time, they are singled out for frequent interaction by Relationship Managers, based on their commercial potential. Recognizing clients’ preferences in how they interact with the bank is therefore critical in getting the right emphasis on each channel, while being more responsive to client wishes. As well as better client management, this will support the optimization of resource allocation and cost. Valuable Relationship Manager time that can be freed up from “low touch” clients can be efficiently reallocated to activities with higher potential (client acquisition, securing the relationship at crucial moments, management of “high touch/high potential” clients, …).

- **Design more differentiated roles for channels by client segment:** it is necessary to define the key, secondary or residual role for each channel for the most important interactions (acquisition, cross-selling and up-selling, servicing, retention), and each for the various types of client segments served. The objective is again to adapt to the reality of clients’ banking channel consumption while optimising the cost of service and maximising opportunities to transform client-bank interactions into sales.

- **Select, track and manage the right information:** in the massive flow of information they capture, banks will need to better identify what client and product events that need to be proactively monitored given the commercial potential they represent. This tracking of information is generally already in place, but often embraces hundreds of possible client/product event combinations, whereas in our experience only a fraction of them can be monitored effectively and thereby lead to concrete actions in supporting sales and service development. Opportunities raised should be pursued through the optimal channel, based on each channel’s particular characteristics.
To develop their commercial performance while optimizing their distribution costs in a multichannel environment, some of the leading banks tailor their marketing activities, giving priority to the most critical commercial actions while using the most appropriate distribution channel.

Exhibit 12: Select, track and manage the right information for commercial performance and distribution cost optimization

Based on a good understanding of client profiles, equipment, value and potential as well as channel preferences...

...and integrating the various commercial pressure stimuli...

...and given business opportunities and commercial pressures...

...first determines which events the client is eligible for...

...then selects actions most likely to generate the strongest impact...

...and these channels most adapted to the action context and that fit client channel preference.

Beyond improved client management, banks need to market their multichannel value proposition, in our view a key lever for differentiation against their peers and critical to competing effectively with direct players that have started positioning themselves as a credible alternative for specific customers who don’t require much human interaction with a bank. Recent years have witnessed multiple initiatives from branch-based banks that give their clients a wider choice on how they want to interact with the bank.
Exhibit 13: Example of differentiated value proposition based on multichannel strategies

Case study: Reinvigorate value proposition through multichannel in France

“La Banque Postale” has developed a “Choose the way you bank” approach, offering the client the opportunity to select his preferred way to interact with the bank around three main areas:

- Remotely or branch-based
- Dedicated vs. non dedicated Relationship Manager
- “turnkey” or “self service” offers

Caisse d’Epargne Rhône Alpes promotes a new banking relationship through its “monbanquierenligne” (“My on-line banker”) offer with a dedicated advisor accessible remotely (email, chat, video-call, phone) during extended hours.

BNP Paribas has positioned a similar value proposition with its Internet branch (“NET agence”) combining direct channel for the daily relationship, and branch access for projects that require a more specific expertise (such as mortgage, investments, pensions).

LCL has also offered for several years a full direct bank (e-LCL) to which branch-based clients can transfer their account.

3. Turn retail institutions “multichanneled”: align organization and processes

We believe there are actually no real multichanneled incumbent banks because none has created a genuine multichannel-oriented organization, remaining instead with siloed channel management. We strongly believe that managing the organisation in a multichannel way is essential to gaining the full potential value of multichanneling. Many banks still point to internal hurdles, such as branch network opposition, as key barriers to the development of multichannel.
Exhibit 14: Barriers to multichannel development

Managing the multichannel path entails the simultaneous emphasis on four areas: organization, processes, incentives and dashboard.

**Organization**: regardless of the different organisational options selected for the management of distribution, no-one seemed to be charged with the responsibility to integrate all channels in a genuinely customer-centric way. We never found a unique entity responsible for steering the overall multichannel strategy with clear missions and targets. The necessary transformation requires a clearer responsibility for distribution coordination, looking at both the bank’s and the client’s interest in a real multichannel perspective. Those handed this responsibility must promote the client-centric view which is predominant within branches but often neglected in other channels.

**Processes**: the siloed approach to channels has created discontinuity in the client experience. A greater focus should be placed on workflow management to allow consistency on the information provided along the various channels. This is not only required to avoid failures of service and falls in sales, but to ensure that relevant information is captured and can be properly managed.
Processes should also run from beginning to end on a specific channel. One classic example of the current failure to achieve this objective occurs in relation to the various products that can supposedly be purchased on the bank’s website. In reality, the client often discovers after the initial steps of the process that he is to contact the branch or a call centre to finalise the purchase. New approaches to electronic signature and the opportunity to process scanned or pictured documents are some of the tools that banks will need to introduce to ensure process continuity.

It is also critical to ensure that information is consistent and circulated across the various channels.

**Case Study: Bankinter advice to Affluent clients**

Bankinter offers advice to Affluent clients through different channels with varying frequency – a weekly newsletter sent by e-mail, a video of the Chief Analyst on the web, portfolio suggestions on the website according to the client profile, or a specialist Relationship Manager or Branch Manager, are some of the different points of contact where a client may find advice. All of them need to be aligned to offer the same updated advice to the same client at any given moment.

**Dashboard:** organisational changes should be carried out alongside effective changes in the management information system. Tracking the concrete benefits of multichannel remains a challenge, and surveyed banks still lack some operational Key Performance Indicators to monitor channels’ contribution both to sales performance and cost containment. The most commonly adopted approaches take shortcuts. A recent market survey showed that a majority of European banks still allocate all sales to branches, regardless of the role that alternative channels might have played in executing or supporting the sales. Because of this lack of relevant targeted information, it is difficult to secure investment decisions for channel and prioritization is still often decided by a qualitative rather than data-proof process. Whatever the multichannel strategy eventually implemented, it is important to set clear and realistic objectives and maintain a solid framework to track and measure multichannel results.

**Incentives:** tracking and measuring is certainly important, but not in themselves sufficient to overcome those challenges created by potential branch network resistance. To guard against the fear of cannibalisation of what they perceive to be their own territory, we believe it is critical to integrate multichannel development in the reward structure for key managers, both centrally and within the network. The ability to support multichannel contribution to sales development, to optimise costs and enhance client service, should all feature among the key criteria for measuring managers’ overall performance.
Conclusion: the 20/20 win

There is still a significant gap between banks’ stated ambitions and the reality of their approach to multichannel.

Moving from a “everything, for everyone on any channels” to a “right product for each client on the best channel” approach remains a major challenge. This challenge is in our view less technological (as most infrastructures are in place) than strategic (changing the mindset to prioritise client over channel) and operational (capitalising on multichannel information to make things happen).

We believe that retail banks should adopt two types of actions along the multichannel path:

- **Tactical**: exploiting existing infrastructures to boost the sales contribution of direct channels while optimizing marketing efforts and related costs. Based on the experience of leading players, we believe that alternative channels can contribute to the origination of 20% of banks’ unit sales in the coming three years.

- **Transformational**: better understanding of clients’ channel behaviour and preferences to review a resource allocation that has until now been generally considered from the angle of client value alone. Recognizing that even some high value clients are “low touch” will make it possible to free up valuable Relationship Manager time. The first banks to reconsider their approach to resource allocation, introducing the channel consumption dimension, report at least 20% of Relationship Manager time-saving that can then be efficiently reallocated to higher potential activities (client acquisition, securing the relationship at crucial moments, management of “high touch/high potential” clients etc.).
Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, organisational transformation, and leadership development.

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