CONSUMER BANKING IN CANADA: OMNICHANNEL STRATEGY

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>1</td>
</tr>
<tr>
<td>1. INCORPORATE BEHAVIOR-BASED SEGMENTATION</td>
<td>2</td>
</tr>
<tr>
<td>2. PROACTIVE APPROACH TO DIGITAL EDUCATION</td>
<td>4</td>
</tr>
<tr>
<td>3. DIGITAL MIGRATION AND CUSTOMER EXPERIENCE</td>
<td>7</td>
</tr>
<tr>
<td>4. EVOLUTION OF PHYSICAL CHANNELS</td>
<td>8</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>10</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Digital has fundamentally reshaped consumer behavior in retail banking. According to our research, roughly 90% of Canadian banking customers use digital channels and more than 30% of customers are now banking exclusively virtually. In response, banks across Canada and globally are making large investments in digital technology and analytics to deliver a better experience at a lower cost, deepen and broaden existing client relationships, extend their distribution reach, and protect relationships against both traditional and new competitors.

To further our understanding of these trends from the customer’s perspective, we conducted a survey of ~4,000 Canadian consumers focusing on their digital banking needs, attitudes, and behaviours. We supplemented this research with targeted mystery shopping of leading Canadian banks to determine how they are positioning and explaining their digital capabilities during the account opening process. Our primary focus was to uncover ways to help Canadian banks optimize and accelerate the returns on the sizable investments they are making in Digital and enhance their customers’ day-to-day banking experience.

The survey revealed some surprising findings. For example, Millennials are almost equally likely to be branch-only as consumers in the 35-55 age brackets. For consumers that exclusively use digital channels, having branches available nearby is still a valuable element of the banking relationship. And a large number of consumers are not convinced that digital channels add value to their experience.¹

This research led us to four key takeaways:

1. Digital adoption is not a matter of “if you build it, they will come”, nor is it a matter of Millennials vs. Boomers — banks need a behavior-based segmentation approach to understanding and supporting clients who are at varying stages of transition.

2. Digital adoption and usage still presents a large untapped opportunity for efficiency, but the “low hanging fruit” has been picked — banks must take a proactive approach to digital education focused on showcasing the value of embracing digital to heavy branch users.

3. Successful promotion of digital is much more than an efficiency opportunity — further digital migration will improve customer experience as customers of all stripes exhibit greater delight in using digital channels.

4. Client-facing employees in branches and call centers will still play a vital role in banking for the foreseeable future — but the role of human channels will shift to a focus on advice and support of complex needs.

The balance of this paper will elaborate on each of these takeaways, supported by the data and insights from our consumer research. Based on our experience, banks armed with these types of insights on their own customers can generate a 10–20% improvement on returns from digital investments.

¹ This paper focuses on channel usage behaviors but the survey also has insights on other topics such as banking relationships, profit pools, payments and attitudes towards new technologies.
1. INCORPORATE BEHAVIOR-BASED SEGMENTATION

Mobile and online banking have become a core part of the banking experience in recent years, and indeed more than 90% of Canadian banking customers now use at least one of these digital channels for simple banking transactions. However, the transition to digital day-to-day banking is not entirely complete – 65% of customers still use branches for simple transactions and nearly 80% value the convenience of physical branches. With the proliferation of channel options and capabilities, banking customers have increased the intensity of banking transactions and interactions, not just shifted existing transactions to different channels.

Digging deeper, we observe large skews in customer channel behaviour across two dimensions – which channels they use and their degree of engagement across channels. For simple banking transactions, we find that a third of customers only use digital and self-service channels (e.g. ATMs), nearly 60% of customers use both digital channels and the branch, and roughly 10% still rely solely on the branch. Of the multi-channel customers, 30% are frequent branch users defined as transacting in branches at least twice a month. Conversely, for the 30% of customers who only use digital channels, nearly 40% still highly value the convenience of having a branch nearby. We have applied these insights to define 5 behavioral client segments as shown below in Exhibit 1.

**Exhibit 1: Behavioral Segmentation of Canadian Consumers**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Description</th>
<th>% of CA population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch only</td>
<td>Customers who use branches and don’t use online/mobile channels for simple transactions (deposits, withdrawals, balance inquiries)</td>
<td>9%</td>
</tr>
<tr>
<td>Multi-channel</td>
<td>Customers who use both branches and online/mobile channels for simple transactions, but go to a branch at least twice a month</td>
<td>16%</td>
</tr>
<tr>
<td>Digital-centric</td>
<td>Customers who use both branches and online/mobile channels for simple transactions, but go to a branch once a month or less</td>
<td>41%</td>
</tr>
<tr>
<td>Branch in mind only</td>
<td>Customers who value branches but don’t use them for simple transactions</td>
<td>13%</td>
</tr>
<tr>
<td>Digital optimizers</td>
<td>Customers who don’t use branches for simple transactions and value pricing/product features over branch convenience</td>
<td>21%</td>
</tr>
</tbody>
</table>

*Note:* Virtual channels includes online and mobile.  
*Source:* Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).  

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For banks to fully realize the returns on sizable digital investments, they should develop a similarly granular understanding of their customers’ preferences and behaviors and tailor their client and channel management strategies accordingly. While this seems intuitive, we see three primary mistakes that banks make – (1) not focusing enough on helping customers through the digital transition, (2) taking a one-size-fits-all approach to customer channel management and (3) assuming demographics are destiny for digital adoption.

On this last point, conventional wisdom is that Millennials are much more digital-savvy than older generations and that segmenting bank customers by age would serve as a proxy for digital engagement. While we do see some correlations between age and channel preferences, we see much larger skews within age segments than across age segments. For example, our research finds that “Branch Only” are nearly as likely to be Millennials as are “Digital Optimizers”. Similarly, roughly half of multi-channel segment customers are 55 or older. A channel strategy which correlates behavior with demographics obscures the complex factors that drive banking decisions. Banks should invest in taking a behavioral view of their customers and implementing strategies tailored to these segments.

Exhibit 2: Age distribution by behavioral segment

<table>
<thead>
<tr>
<th>Age Distribution by Omnichannel Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch only</td>
</tr>
<tr>
<td>18–34</td>
</tr>
<tr>
<td>35–54</td>
</tr>
<tr>
<td>55–70</td>
</tr>
<tr>
<td>71 or over</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).
2. PROACTIVE APPROACH TO DIGITAL EDUCATION

While most Canadians primarily use digital channels for their day-to-day banking, there are millions of transactions being conducted in bank branches every year. The vast majority of these are simple transactions – such as deposits, withdrawals and account updates – that can be done quickly and efficiently in self-service channels (see exhibit 3).

Exhibit 3: Percent of branch transactions by type

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Frequency</th>
<th>Visits per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit cash</td>
<td>42%</td>
<td>6.7</td>
</tr>
<tr>
<td>Update my passbook/bank book</td>
<td>38%</td>
<td>3.6</td>
</tr>
<tr>
<td>Deposit a cheque</td>
<td>32%</td>
<td>4.6</td>
</tr>
<tr>
<td>Update account information</td>
<td>21%</td>
<td>2.3</td>
</tr>
<tr>
<td>Withdraw cash</td>
<td>16%</td>
<td>4.5</td>
</tr>
<tr>
<td>Deposit a paycheque</td>
<td>15%</td>
<td>1.9</td>
</tr>
<tr>
<td>Transfer funds from my account to other accounts</td>
<td>14%</td>
<td>1.6</td>
</tr>
<tr>
<td>Transfer funds between my accounts</td>
<td>9%</td>
<td>1.3</td>
</tr>
<tr>
<td>Review account information</td>
<td>8%</td>
<td>4.5</td>
</tr>
<tr>
<td>Pay a bill</td>
<td>7%</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).

While there are some transactions that are driven to the branch because of constraints in policy (e.g., different transaction size limits across channels) and process (e.g., poor experience and/or lack of functionality in digital channels), the largest barriers to migration are customer awareness and comfort with self-service channels. For customers who currently use physical channels, nearly 50% would migrate to digital channels if their bank could demonstrate that they are easy to use and can help them save time. Driving awareness of digital capabilities and creating familiarity with their functionality is essential to converting users of physical channels. Addressing concerns and providing support are also key – those with some virtual activity require apparent ease-of-use and time savings to convert their remaining physical activities to digital channels. Meanwhile, those most reliant on physical channels need to know that they can still reach a human when needed – that’s a critical pre-requisite for migration. Interestingly, financial incentives are not considered very compelling by customers.
Exhibit 4: Respondents’ self-reported willingness to use self-service channels over branches or call centers

**IF CURRENTLY USING BRANCHES OR CALL CENTRES FOR SIMPLE BANKING TRANSACTIONS**

<table>
<thead>
<tr>
<th>ATTITUDES TOWARDS DIGITAL CHANNELS</th>
<th>100%</th>
<th>18%</th>
<th>18%</th>
<th>11%</th>
<th>53%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All customers that do branch &amp; call center transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers who would migrate if digital channels were easy to use and saved them time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>C</td>
<td></td>
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<tr>
<td>Customers who would migrate if digital channels were easy to use</td>
<td></td>
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<td></td>
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<tr>
<td>D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers who would migrate if digital channels saved them time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>E</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remaining customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).

Currently, banks in Canada are not doing as much as they could to educate customers and promote digital capabilities, particularly at the time of account opening, which is the time when the bank has the customer’s undivided attention for a reasonable amount of time. Our mystery shopping effort in Canada\(^2\) revealed that only 43% of customers were informed of mobile banking capabilities while opening a new account at the branch. This is a lost opportunity to both educate and familiarize customers at a pivotal touchpoint in their relationship with the bank. Promoting digital channels at the onset of the relationship not only takes advantage of an existing window of opportunity to educate customers, but can also anchor their behavior to using digital channels at a time when customers are most adaptable.

\(^2\) Oliver Wyman conducted mystery shopping research in which 14 individuals opened new chequing accounts at the five largest Canadian banks and recorded various parameters of how the process as positioned to them.
Opportunities for digital migration rest largely in the hardest-to-convert segments, as the “low hanging fruit” of digital migration has already been picked. To migrate the remainder of the branch users, banks must make a concentrated effort to demonstrate the value of digital channels, particularly among customers that are the most branch-dependent. Physical branch transactions are highly concentrated in a comparatively small segment of the population: 25% of customers account for up to 93% of the remaining branch transactions. This argues for a targeted and proactive approach to supporting these customers through the transition toward digital day-to-day banking.

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).
3. DIGITAL MIGRATION AND CUSTOMER EXPERIENCE

The goal of digital migration, ultimately, is to provide customers with a satisfying banking experience that most effectively meets all of their needs. An increase in digital adoption will lead to greater operational efficiency for banks, but just as importantly, it will provide customers with the banking experiences that make them happier. We looked at the relationship between customers’ channel behavior and their overall satisfaction with a bank, as defined by whether they are a promoter, detractor, or neutral about their primary bank. We found that while heavy mobile and online users are no more likely to be promoters of their primary bank than other customers, they are half as likely to be detractors compared to branch-only customers.

Exhibit 7: NPS breakdown by channel usage

HOW LIKELY ARE YOU TO RECOMMEND YOUR PRIMARY BANK TO A FRIEND OR COLLEAGUE?

<table>
<thead>
<tr>
<th>NPS:</th>
<th>25</th>
<th>19</th>
<th>18</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uses online &amp; mobile banking</td>
<td>18%</td>
<td>19%</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td>Uses mobile banking (but not online)</td>
<td>39%</td>
<td>42%</td>
<td>38%</td>
<td>28%</td>
</tr>
<tr>
<td>Uses online banking (but not mobile)</td>
<td>43%</td>
<td>39%</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Uses neither online nor mobile banking</td>
<td>43%</td>
<td>39%</td>
<td>40%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).

In order to understand the root cause of this phenomenon, we asked respondents to review a series of recent common banking transactions they had completed for any given channel and assess the extent to which completing the transaction was a “hassle” or a “delight.” Customers reported greater “delights” across digital and self-service channels, and greater “hassles” at branches and call centers. Customers report that the time required, quality of interaction, and manual intervention were common hassles in banking transactions.
4. EVOLUTION OF PHYSICAL CHANNELS

Even as customers transition to digital day-to-day banking, they still place a high value on physical locations. While mobile and online capabilities now rank as the most important factor in bank selection, branch proximity remains an important consideration when choosing a bank for nearly 3 in 4 Canadian banking customers, including nearly 40% of Digital Optimizers. In addition, a majority of customers within each behavioural segment indicated that they would be upset with aggressive network rationalization measures such as widespread branch closures, a reduction in opening hours and shifting to fully automated branches.
We see two primary drivers for the continued affinity for bank branches, even as their utility as transaction centers is on the decline. The first is that most customers prefer to perform complex banking transactions in person, most notably when they want to open or apply for a new banking product. The other is that many customers feel more comfortable entrusting an institution with their money when they have a local presence (the ‘billboard effect’ of branches), and have the option to meet with someone face-to-face to resolve any issues that may arise.

Source: Oliver Wyman Survey of Canadian Consumer Finances (Q4 2015).
As transaction volumes decline while the importance of people and locations persists, banks need to fundamentally change the role of their human channels. Client-facing employees will no longer spend a significant amount of time on day-to-day transactions. Instead, they will need to focus more on providing customers with valuable advice on how to manage their financial lives. Employees will proactively help customers address their financial services needs and resolve any issues they may have, whilst becoming an integral part of their omnichannel experiences for complex transactions.

CONCLUSION

The transition to digital day-to-day banking is well underway in Canada, and banks are investing heavily to build the required capabilities and transform. However, it is important to appreciate that customers are at different stages of transition, and a segmented and targeted client management approach can help to accelerate returns on digital investments and improve client experience. This foundation of customer centricity is also critical to evaluating more transformational changes as the industry moves towards a new digital future.
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