IT'S TIME FOR CANADIAN RETAIL BANKS TO FAST FORWARD INTO THE FUTURE

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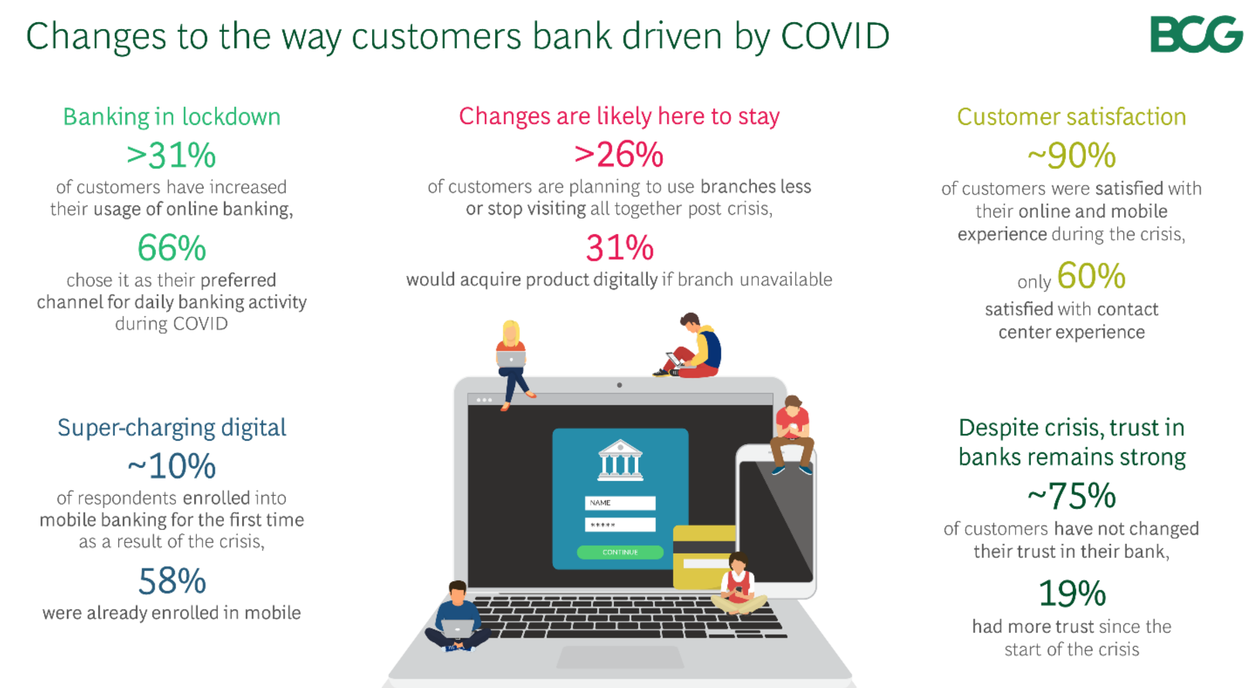
The pandemic has proven viral in all respects, propelling changes in banking within three months that would normally take three years to achieve. But while institutions may have been thrust into this transformation, those that harness this fast-forward moment can take sales, service and business resiliency to new levels—at a scale and pace capable of unlocking profitable growth for years to come.

BCG's 2020 Retail Banking Excellence Benchmark (REBEX), which surveyed 17,600 banking customers in 30 countries including Canada, confirms that the pandemic has created a singular moment for banks. Canadian customers have gone digital and they are not coming back. Trends that were gathering momentum before the crisis have now solidified.

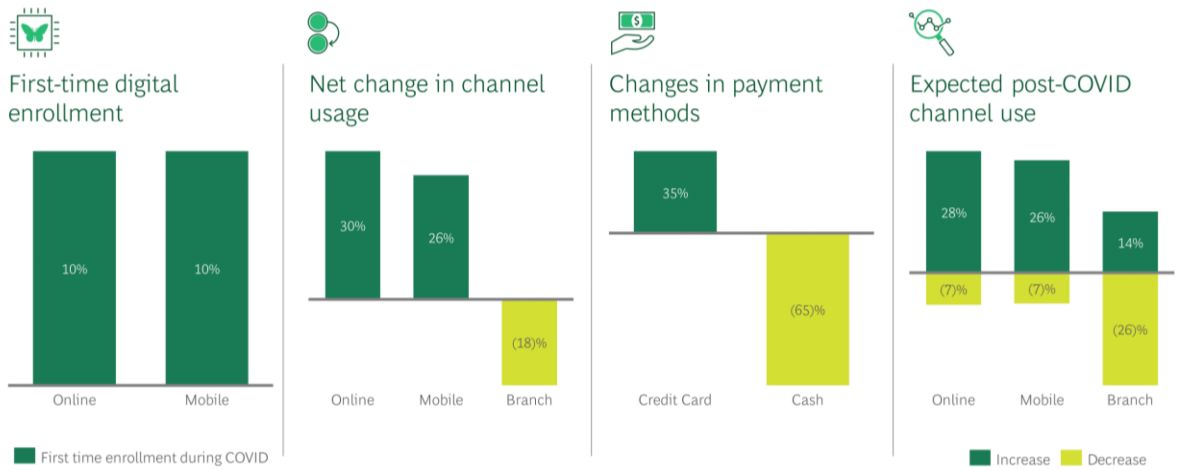


Source: BCG REBEX Pulse Survey June 2020.

The following three illustrate just how much the retail banking landscape is transforming.

- **Customer service shifted far and fast.** Over the course of the lockdown period, digital adoption grew by 10%, taking the overall base of online banking users well beyond the 80% mark and mobile users to more than 60%. Customers also used digital modes of banking more frequently, with mobile banking up 26% and online banking up by more than 30%. As digital payments rose (soaring by 30% to 35%) cash use plummeted by a massive 65%. Branch use also fell, with visits down 18% from the pre-crisis period. Sentiment suggests these behavioral changes are likely to stick—more than 25% of customers expect to increase their use of mobile and online channels going forward, with a similar percentage saying they will frequent branches less often. (See Exhibit 1.)

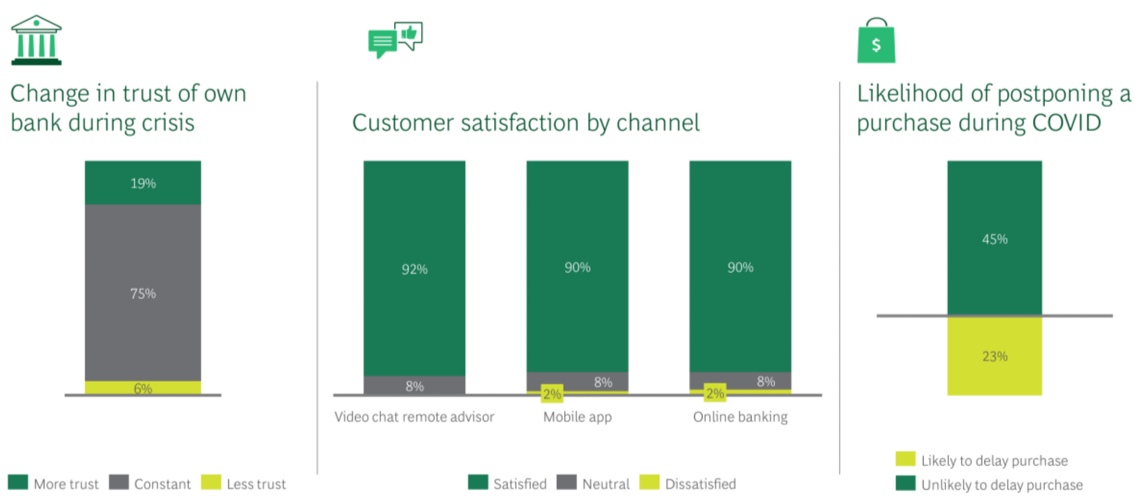
EXHIBIT 1 | Key changes to the way Canadians are banking during COVID



Source: BCG REBEX Pulse Survey June 2020.

- **Customer sales also shifted far and fast.** Despite significant market volatility, nearly one-in-five customers said they feel even more trust in their retail banks than before. Personal savings rates rose to 28% in July with deposits growing by 10% since the start of year. Another sign of trust is strong spending sentiment: 45% of customers will continue with planned new product purchases, a number that shot up to more than 60% for those aged 55 and above. Among the products sparking renewed customer attention over the past several months are insurance to cover ongoing expenses (up 32%), dedicated financial advisory (up 31%) and savings products with flexible, cash-out options (up 31%). Remote and virtual advice proved especially popular—with a 3x increase in demand and a 92% customer satisfaction rate. (See Exhibit 2.)

EXHIBIT 2 | How customers view their bank & their own needs during COVID



Source: BCG REBEX Pulse Survey June 2020.

- **Retail bank delivery is faster than ever.** In the first 10 days of the government's relief program, Canada's top five banks received and acted upon more than 200,000 requests for mortgage deferrals. Over the summer, they also processed more than 8 million CERB payments. That these banks were able to deliver straight-through-processing capabilities in near real time while shifting thousands of FTEs into digitally-enabled, secure remote environments is an extraordinary achievement. It also means they can do it again.

These findings are good news. They mean behavioral changes long anticipated by banks have materialized. They confirm that digital channels offer an unprecedented platform to meet customers' banking needs. And they show that banks can work fast when they need to.

There is upside in a downturn for those willing to commit.

For Canadian banks that want to claim strong advantage now and in the postcrisis period, here are the no-regret actions to take.

- **Make digital service accessible and personalized**. Customers have made it clear that they want to bank mobile/online. Now banks need to make it easier for them to do so. That starts by augmenting the range and depth of services provided—from digitized financial transactions to digital self-service across non-financial everyday banking needs, to smart digital enhancements that allow banks to become an indispensable partner. Quick wins can include two-way communication for fraud, the card-on-hold button on the mobile or prepopulated retirement tools that synthesize information from multiple data sources. Awareness building and education must go hand-in-hand with innovation. More than 60% of digitally-active customers said they had not used online chatbots or budgeting tools. Personalized outreach and nudges, instructional popups and related marketing can bring that number down, increasing adoption and relevance and helping banks carve out greater differentiation.
- **Offer bionic sales and advice.** Whether opening an account or applying for credit, customers want a streamlined experience online and off. Connecting the dots in this way will require banks to create straight-through-sales experiences that are linked to effective digital marketing and engagement. Going "bionic" can help banks meet these demands, letting digital self-service do the "heavy lifting" to meet customers' everyday banking needs while freeing advisors to spend more time in front of customers (in person or remotely) to address complex or higher-value needs. Recently launched Schwab Plan, by Charles Schwab in the US, is a great example of delivering this type of digital-human advice. As an online self-guided financial plan, it enables a better customer experience while also enriching the advisor experience with enhanced tools, data and engagement capabilities.
- **Deliver front-to-back connectivity.** Integrated front-to-back processes are no longer leading edge, they have become a mainstay, and they will be critical to giving banks the nimbleness they need to operate in the new reality. Many banks have chosen to focus on customer onboarding and mortgages—high demand services that are often bedeviled by cumbersome and manual processes. Breaking down these journeys into their component parts can allow

banks to redesign and digitize them end to end. Not only is the need for integrated, customer-friendly processes high—so is the opportunity. More customers will rely on digital banking in the months ahead as the pandemic enters its second wave and a record number of house sales in July signals the real estate market remains strong. To support greater digital adoption, banks will also need to modernize their ways of working. Remote work is likely to remain the norm. Given that, institutions will need to move swiftly to virtualize their workflows and create flexible teams and work practices. Doing so will enhance customer outcomes, lower costs and strengthen controls, allowing banks to operate with greater pace and resilience.

It’s decision time.

Recent history shows that there is advantage in adversity. In the last four downturns, companies that took decisive action in making sweeping internal changes drove sales growth and margin markedly higher. But only one in seven businesses typically seize the opportunity. Which choice will your bank make? Seize advantage or shy from it?

Banks that are ready to say “yes” will prioritize the above moves and create a new and faster operating rhythm. That rhythm will allow them to fast forward into the new era of retail banking and take business and customer performance to new heights.

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About Our Research

BCG's Retail Banking Excellence Benchmark (REBEX) team conducted Pulse surveys of 17,600 retail banking customers across 30 countries including Canada between mid-May and mid-June 2020, n=381 for Canada to measure the COVID-19 impact on retail banking consumer behavior globally. REBEX is BCG's comprehensive end-to-end decision support tool for retail banking which combines proprietary peer-based benchmarking with consumer insights from 70,000+ consumers in more than 25 countries. REBEX also offers deep dives in areas key to bank performance like cost, digital adoption, network performance and many others.

For more details on our REBEX product, please contact the authors.