

Spoiled for choice: How Asia's bank consumers are changing channels



By Heeyoung Hwang and Kenny Lam

Asian banking consumers are changing the way they do their business. Life is therefore getting more complicated—and more interesting—for the region's financial institutions.

That is one of the key findings from McKinsey's 2011 Asia PFS survey of 20,000 consumers in 13 countries.¹ The survey seeks to understand how consumer behavior, as well as their banking relationships and product need, is changing. In six developed markets—Korea, Japan, Taiwan, Hong Kong, Australia and Singapore—McKinsey conducted additional research on how consumers make purchase decisions and what channels consumers are using to buy and use savings and basic investment products.²

One of the most interesting findings of this work is that the use of branch offices is faltering across Asia—down 27% since 2007; this is the first recorded drop since McKinsey began doing the survey in 1998. Consumers in developed Asia deal with their banks about six times a month, the same as in the past. The difference is that they are now using new channels, such as Internet and mobile more (3.2 times a

month) than traditional channels such as branch visits and the telephone (2.57 times a month).

As new channels are being built, consumers are coming to them. In short, their behavior is changing.

There are three distinct phases in how consumers buy and use financial products:

- 1. Pre-subscription:** Consumers gather information on which bank to use and what products to buy.
- 2. Subscription:** Consumers actually buy/subscribe to a new product.
- 3. Post-subscription:** After purchase, consumers make a transaction (e.g., deposit, withdrawal, money transfer) or receive a service (e.g., getting a bank statement, changing contract terms, etc.)

In each phase, there are multiple ways (or “channels”), through which consumers can do what they need to do, ranging from traditional forms such as branch visits, call centers and ATMs, to digital channels like websites and mobile technology, to third-

party agents to non-paid touchpoints such as word of mouth and user reviews. As has already happened in North America and Western Europe, migration to new channels in Asia is occurring faster in transactions than in subscriptions. For example, in the six developed Asian markets, digital channel usage (51%) has already surpassed branch visits (44%) for transactions. Add ATMs to the mix, and total electronic channel usage reaches 65% across those six countries.

Intriguingly, this is not just a matter of tech-addicted younger people spurning old-fashioned ways. In Japan, consumers 55-and-older are actually more likely to use online banking for transactions and service than any other age group.

Subscription is also beginning to migrate to digital channels. More than a quarter (27%) of consumers say they would prefer to subscribe through digital channels the next time they buy a savings or basic investment product, an increase of five percentage points. This rise comes at the expense of branch usage, where people say they are less likely to use that channel the next time (down six percentage points).

¹ The results of the McKinsey Asia Personal Financial Services Survey 2011 are based on 60-minute one-on-one interviews of financial-services consumers—mass, mass affluent, and affluent—across Asia. McKinsey has conducted the survey every three or four years since 1998.

² Defined as savings and investment products that are used as a limited risk solution for up to 10 years.

And to complicate things further, consumers have started to use multiple channels. The majority of respondents in the six developed Asian markets used at least five channels to research a new savings or basic investment product; 1.7 channels for making a transaction; and 1.8 channels for getting service. Across the three phases, only 21% stay within the same channel. Here's a schematic, using Korea as an example, that shows just how complicated consumer channel usage is becoming:

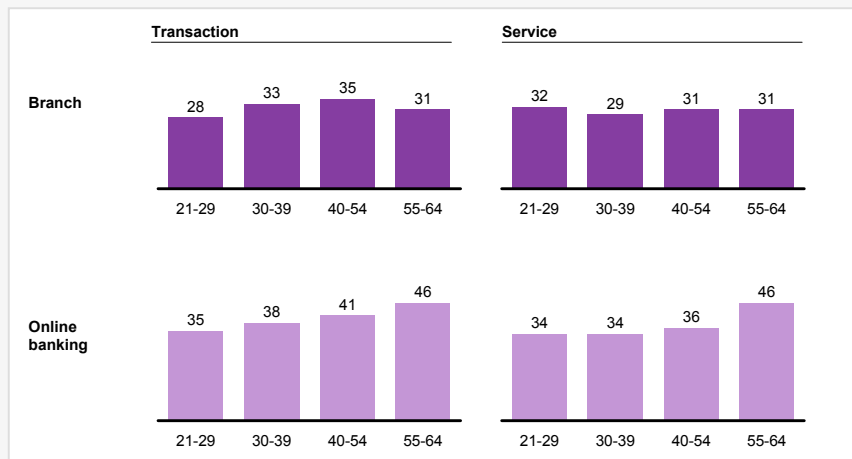
These changes bring new challenges. Banks need to provide customers with a seamless experience across all channels: That will require investment. But there is opportunity, too. Done right, the institutions that create the right kind of experience will win tangible economic rewards through increased cross-selling and customer loyalty. There could also be substantially lower costs, for example by rationalizing the branch network.

Here are some questions banks need to ask as they prepare for action:

1. Where is the market today and where is it going?

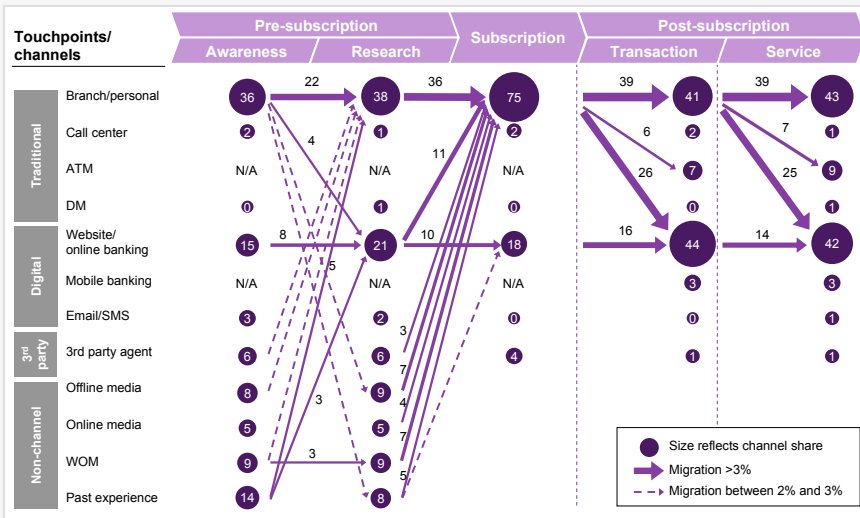
In the six developed Asian markets surveyed, Japan and Australia are ahead of the pack; digital channels capture a large proportion of transactions and subscriptions. Korea also has significant digital channel usage, followed by Taiwan, Hong Kong and Singapore. If Asia follows the pattern established in North America and Western Europe, the likely transformation will be from brick-and-mortar to “online adaptors,” to “multichannel” and finally to “self-first,” in which customers complete banking transactions without the intermediation

Exhibit 1:
Online banking in Japan, by age group
Percent of new subscribers to savings and basic investment products



SOURCE: McKinsey

Exhibit 2:
How consumers in Korea jump channels
Percent of new subscribers to savings and basic investment products



1 Only most important paths are shown here
2 All arrows to maintenance activities are directly from Subscription phase (i.e., Transaction and Service phases are not sequential)
SOURCE: McKinsey

of a bank employee. It is likely to take 7-10 years for the digital adaptors to reach the self-first state, and about three to five years for those in the multichannel markets to do so.³

To prepare for this transition, banks need to understand where each market stands in the transformation journey, and how long it will likely take to get to the next stage. Banks in Japan and

3 See “How Europe’s retail banks handle channel strategy,” Radboud Vlaar and Victor Matarranz Sanz de Madrid, McKinsey Quarterly http://www.mckinsey.com/client-service/Financial_Services/Knowledge_Highlights/Recent_Reports/~/_media/Reports/Financial_Services/Retail_face_to_face.ashx

Australia, for example, should get ready for subscriptions through digital channels to surpass those through branches in the next year or two. This might mean figuring out whether to cut staff at branches or to reduce the number of offices—as Western Europe has done over the last decade. Banks in Taiwan, Hong Kong and Singapore should secure their IT systems in order to allow online subscriptions with remote support.

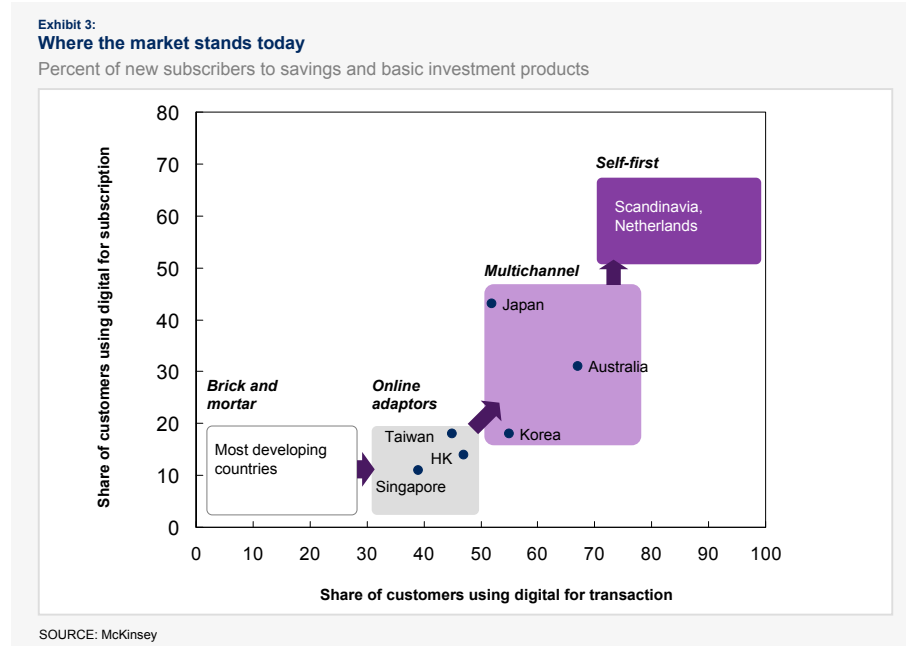
2. What are the typical paths of multichannel usage?

Consumers show discernible preferences when it comes to crossing or changing channels. Among the most common paths are:

- 1) Using branch offices throughout—from research to subscription to transaction;
- 2) Using the media/word of mouth to learn about the product, then migrating to the branch for subscription and transaction;
- 3) Using digital throughout.

In the more advanced countries (ie, those in the “multichannel” stage), consumers who stay online make up a larger share of subscribers to savings and basic investment products. By comparison, in “on the ground” markets (those in the “online adaptor” or earlier stages, like Taiwan) consumers start the journey from media/word of mouth and migrate to branch take a larger portion of the market.

Recognizing these preferred paths is essential for banks to focus their efforts on designing a seamless cross-channel experience. For example, in countries where consumers are more likely to be informed through media/word of mouth and subscribe through branch offices, banks need to make sure that their branch staffs are informed of what is being



offered on media, so that they can answer questions and help customers who learn about the product through media and try to subscribe at the branch. In countries where a large number of consumers stay online, banks need to make the transition to online subscription smooth so that customers do not drop out. One Spanish bank, for example, introduced a feature that enables customers to dial the call center or to make a video call directly from the website to ask about any product or service and then to get help completing online subscription.

Banks also need to think about how they want to steer customers toward specific activities. Some European banks are nudging customers online by limiting the service hours for processing of payments in branches, or by imposing premium on printing of bank statements. The faster a bank reaches critical mass in terms of transaction and service volume going through new channels, the greater the operational efficiency.

3. What are the characteristics of customers who stay in different paths?

Those who favor specific channels share similar, and distinctive, characteristics. In Korea, for example, older housewives from high income/high asset families prefer going to branches through all three phases – pre-subscription, subscription and post-subscription. This demographic also tends to make sizeable desposits per account; they are customers worth cultivating. Those Koreans who stick to online throughout, on the other hand, are likely to be young office workers with average incomes and low assets. They, too, need to be tended to, however, as many future high-earners will be drawn from this group. In Australia, on the other hand, those who stick to online throughout tend to be professionals and office workers with very high income and assets who also make the largest deposits. The way Australian banks treats their online customers, then, may not be the same as what Korean banks should do.

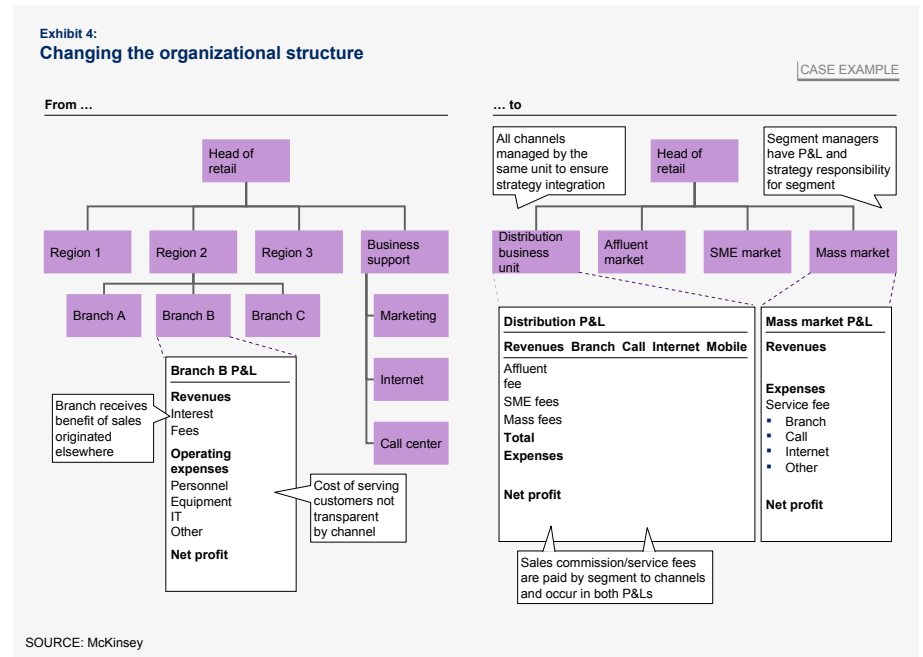
Equipped with this kind of knowledge, banks can tailor their offerings to suit their customers' needs. These profiles suggest, for example, that in Korea the branches should become more like private banking centers in residential areas. At the same time, banks need to start thinking about how to help their online clientele set up a financial plan and grow their wealth.

Taking action

In order to take their game to the next level of multichannel management, banks need to do several important things right.

For a start, they need to define a strategic role for each channel, and then make the changes required to make the strategy work. Consider the branches. As markets evolve and people begin to do more of their routine transactions online, branch offices will likely take on the role of sales and advice outlets for more sophisticated financial products. That has implications for how many and what kind of people to hire. Banks also need to think about how all their channels work in relation to the rest.

Another important area of concern has to do with integration. Typically, banks manage different channels through different organizations. Branches might be under the distribution division while the call center might be managed by the customer service team. A better model to emulate is what one European bank did when it started its multichannel



journey in the late 1990s. The bank created a dedicated team to manage the multichannel transition, including call centers, online, database management and other tools and processes. Another bank created an organization with one distribution unit and different segment units. All the channels are controlled by the same unit and sales commission/service fees are paid by segment to channels.

To mix metaphors slightly, as customers start moving across channels, it is important not to let silos form. That means that all channels need to be able to see all customer interactions, regardless of how they take place. Therefore,

customer data must be stored, analyzed and tracked centrally. For example, a call center operator should know about personalized offerings that are posted online, and be able to answer questions and help to fill out forms. A single view of customer data may also inform more interesting cross-selling offers.

In short, as consumers make their journey toward a multichannel future, banks have to be ready to meet them halfway.

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