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Customer experience as a value driver in German retail banking

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Whether shopping for a new computer, a case of pet food, a hotel room, or a credit card, consumers today expect easy, frictionless buying experiences. The process of researching and then purchasing a product or service must be at once simple and comprehensive. In the banking industry, digital firms and fintech disruptors often deliver this level of service more successfully than incumbent banks. The new and disruptive reality is that people need banking but not necessarily traditional banks. These dynamics are forcing incumbent players to re-evaluate how they think about customer service. How much value is there really in jumping through all kinds of hoops to meet changing customer expectations?

According to McKinsey's Retail Banking Customer Experience Benchmark in Germany—a detailed survey of 4,768 customers of 19 banking institutions—customers who are "extremely satisfied" with their bank are far more likely to become valuable and engaged than those who are merely "satisfied"[1] (Exhibit 1, next page). When compared to dissatisfied customers,[2] extremely satisfied customers are:

- 2.7 times more likely to open new accounts or buy products at their bank
- 4.4 times more inclined to recommend their bank to friends for personal loans
- 3.5 times less likely to refinance their mortgage with a competitor

In other words, highly satisfied customers contribute to a company's success in two ways: By doing more business with the bank and by recommending new customers. Dissatisfied customers, on the other hand, have an equal, if not larger, negative impact on customer satisfaction and overall value. They are up to 5.3 times more likely to close their current accounts and switch to another bank for a finance product. Thus, it is just as important to address the pain points experienced by dissatisfied customers as it is to work on turning satisfied customers into extremely satisfied ones.

How are German banks faring in customer experience?

In our survey, we evaluated three financial products (current account, personal loan, and mortgage), the 11 customer journeys within those products, and the 42 touchpoints that make up those journeys.[3] For example, current account journeys include *opening a new account, making cash withdrawals or payments,* and *resolving an issue.* Touchpoints within the *opening a new account* journey would include completing the application for an account, activating an account, and *conducting an ID verification,* to name a few.

Overall, German banks with the best customer experience ratings are direct banks—those with an online-only offering and no branches. Sixty-two percent of their customers give them a satisfaction rating of 9 or 10 points (out of 10). Also in the top half of our rankings are cooperative banks (independent companies owned by their customers) and Autobanken (the consumer financing arms of automakers). Savings banks (regional, non-profit banks owned by municipalities and cities) score slightly higher than the large private banks, but they are mostly in the bottom half of the rankings.

1 "Extremely satisfied" customers rate their satisfaction with a bank as a 9 or 10 out of 10 points; those who are "satisfied" rate it as 7 or 8 out of 10.)

2 Dissatisfied customers rank their satisfaction anywhere from 1 to 6 out of 10 points.

3 A journey is the end-to-end experience customers have when fulfilling a need and a touchpoint is an interaction they have with a company along the way.

Exhibit 1

Extremely satisfied retail banking customers are far more engaged—and valuable—than less satisfied customers.

Stated intention to change behavior by level of customer satisfaction

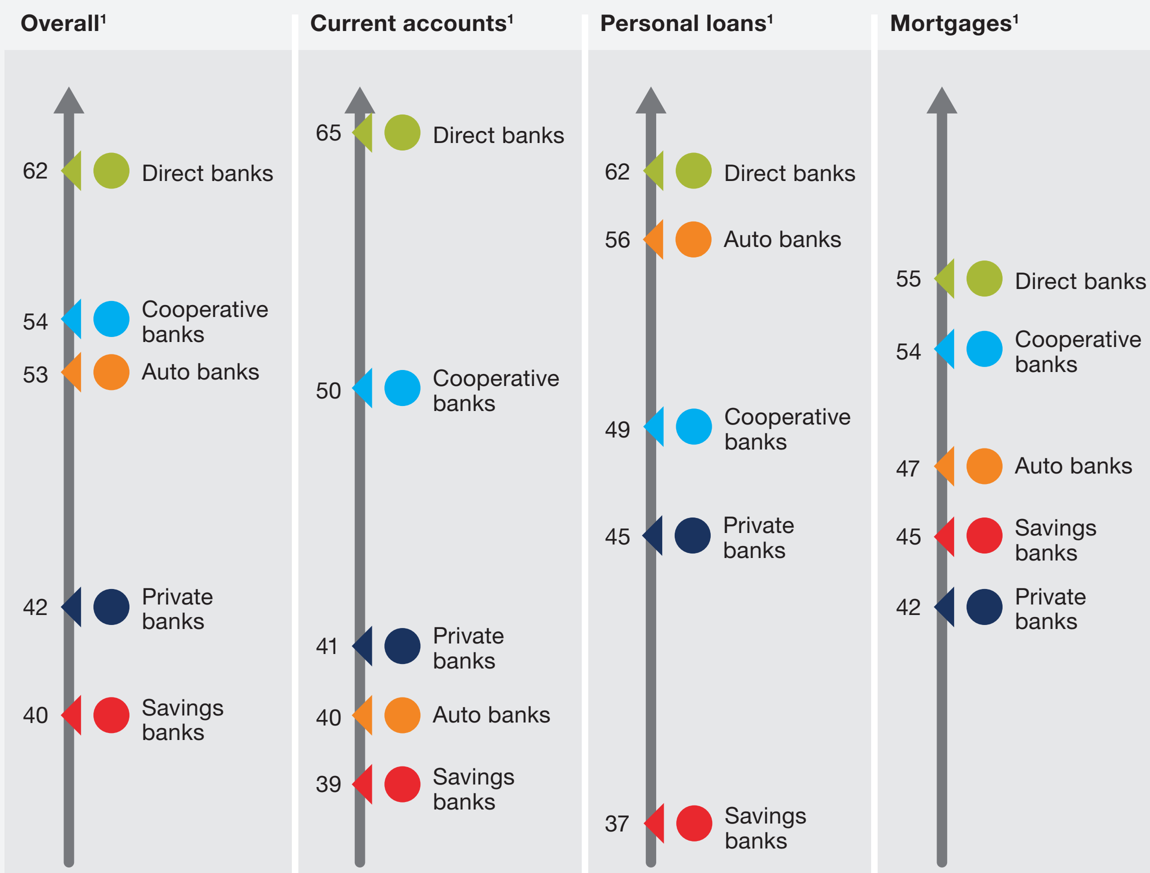
	Across products	Current accounts	Personal loans	Mortgages
Extremely satisfied[1] customers are…	2X More likely than merely satisfied[2] customers 2.7X More likely than dissatisfied customers[3] **to open new accounts/products with their bank**	1.9X More likely than merely satisfied customers 2X More likely than dissatisfied customers **to open new accounts/products with their bank**	1.7X More likely than merely satisfied customers 4.4X More likely than dissatisfied customers **to recommend the bank to a friend regarding personal loan**	1.1X More likely than merely satisfied customers 1.4X More likely than dissatisfied customers **to request further/keep same lines of credit with their bank**
Dissatisfied customers are…	2X More likely than merely satisfied customers 3.5X More likely than extremely satisfied customers **to close some or all accounts with their bank**	2.6X More likely than merely satisfied customers 5.3X More likely than extremely satisfied customers **to close some or all accounts with their bank**	3X More likely than merely satisfied customers 5X More likely than extremely satisfied customers **to refinance their personal loan with a different bank**	2.4X More likely than merely satisfied customers 3.5X More likely than extremely satisfied customers **to refinance mortgage with a different provider**

[1] Customers whose CSAT rating overall for the bank or for particular product was 9 or 10.
[2] Customers whose CSAT rating overall for the bank or for particular product was 7 or 8.
[3] Customers whose CSAT rating overall for the bank or for the product was between 1 to 6.
Source: Retail Banking Customer Experience Benchmark Survey (Germany; N = 4,768)

The top driver of customer satisfaction is security—59 and 64 percent of surveyed customers say this factor is important for their personal loans and mortgages, respectively, and 73 percent cite it as a priority for their current accounts (Exhibit 2). Beyond that, drivers of satisfaction differ by product. For current accounts, most customers are interested in the value they get for their money (69 percent) and access to a wide network of ATMs (62 percent). Having positive personal engagements with a bank plays only a secondary role. On the other hand, for mortgages, the need for personal engagement with a bank is critical. Customers appreciate competent employees (57 percent), having access to consultations with the bank (53 percent) and personal contact with a human being (46 percent). Regarding personal loans,

Exhibit 2

Direct banks outperform other types of banks in terms of customer experience across most products.



[1] Percentage of respondents that selected 9 or 10 on a 10 point scale. Question: "We would like to understand your experience with [product] with [Bank]. Overall, how satisfied or dissatisfied are you with [product] with [Bank]?" Current account N = 4,306; personal loan N = 1,550; Mortgage N = 1,195.

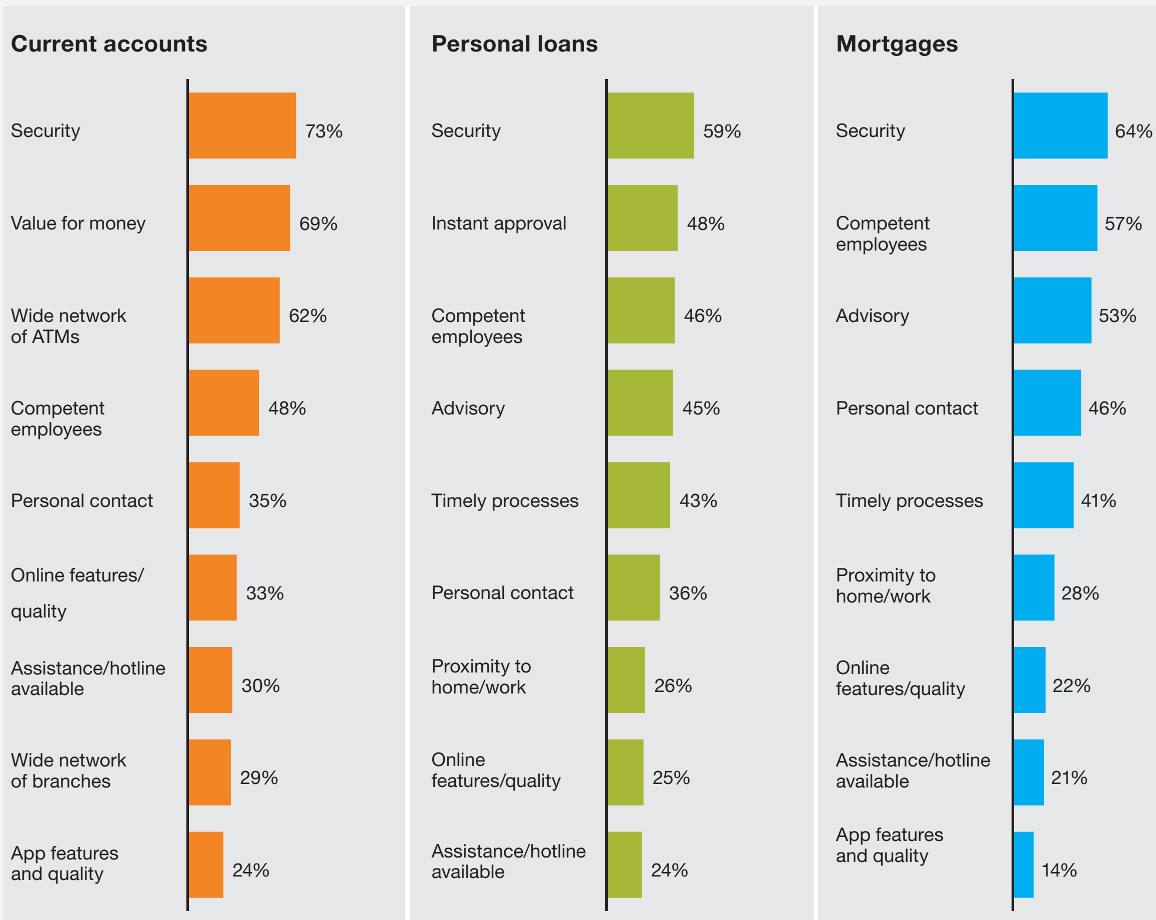
Source: Retail Banking Customer Experience Benchmark Survey (Germany; N = 4,768). Response threshold of 35 per bank.

customers care about getting quick approval (48 percent) as well as being able to deal with competent bank employees (46 percent), and have consultations (45 percent).

Across the three product categories, there are wide customer experience performance variations among different types of German banks (Exhibit 3, next page). Some perform well in one product category but poorly in another, or do well in one journey but fall flat in a different one. Autobanken, for example, are top performers with personal loans but do not do as well in current accounts. These variations underscore the importance of truly understanding what is driving your customer experience and where your biggest areas of improvement lie.

Exhibit 3

Satisfaction drivers vary by product, but security stands out across the board.



Source: Retail Banking Customer Experience Benchmark Survey (Germany; N = 4,768). Response threshold of 35 per bank. Current account N = 4,609; personal loan N = 1,587; Mortgage N = 1,215.

- Current accounts: Unsurprisingly, direct banks lead for current accounts with a customer satisfaction score (CSAT) of 65, followed by cooperative banks (CSAT 50), with savings banks at the bottom (39).[4] The top-performing direct banks lead in all journeys, with their highest score coming in the managing your account journey (CSAT 66). This journey also happens to be a key area of improvement for bottom performers (CSAT 47), along with the opening an account journey (CSAT 24 vs. 55 for top performers).

[4] A journey is the end-to-end experience customers have when fulfilling a need and a touchpoint is an interaction they have with a company along the way.

- Personal loans: Direct banks (CSAT 62) lead again, followed by Autobanken (56), with savings banks once more at the bottom (37). The top performers lead on all key journeys, whereas bottom performers need most improvement in the purchasing a loan (CSAT 39 vs. 60 for top performers) and issue resolution journeys (CAST 38 vs. 72).

- Mortgage: Direct banks (55) and cooperative banks (54) are at the top, while private banks rank last (42). Mortgages have the lowest overall CSAT for the three banking product categories we analyzed. Bottom performers have an opportunity to improve their performance in all key journeys, particularly purchasing a home (CSAT 30 vs. 58 for top performers).

What are the common pitfalls that retail banks encounter in customer experience?

While some banks have more challenges in customer satisfaction than others, every bank we surveyed, even those in the top quartile, has at least some room for improvement in particular customer journeys and touchpoints. Just as customers have changed their expectations of what banking services should feel like, so should German banks. Banks often spend too much time focusing narrowly on their own performance and specific pain points, and not enough looking at how they stack up against others—not just their nearest competitors but other companies that excel in customer experience both inside banking and out. Such an exercise can help trigger bigger and bolder ideas about how to improve.

We have seen banks across the globe enthusiastically embrace the value of improving customer experience only to step into common pitfalls. Here are five ways to avoid missteps and set your customer experience transformation up for success.

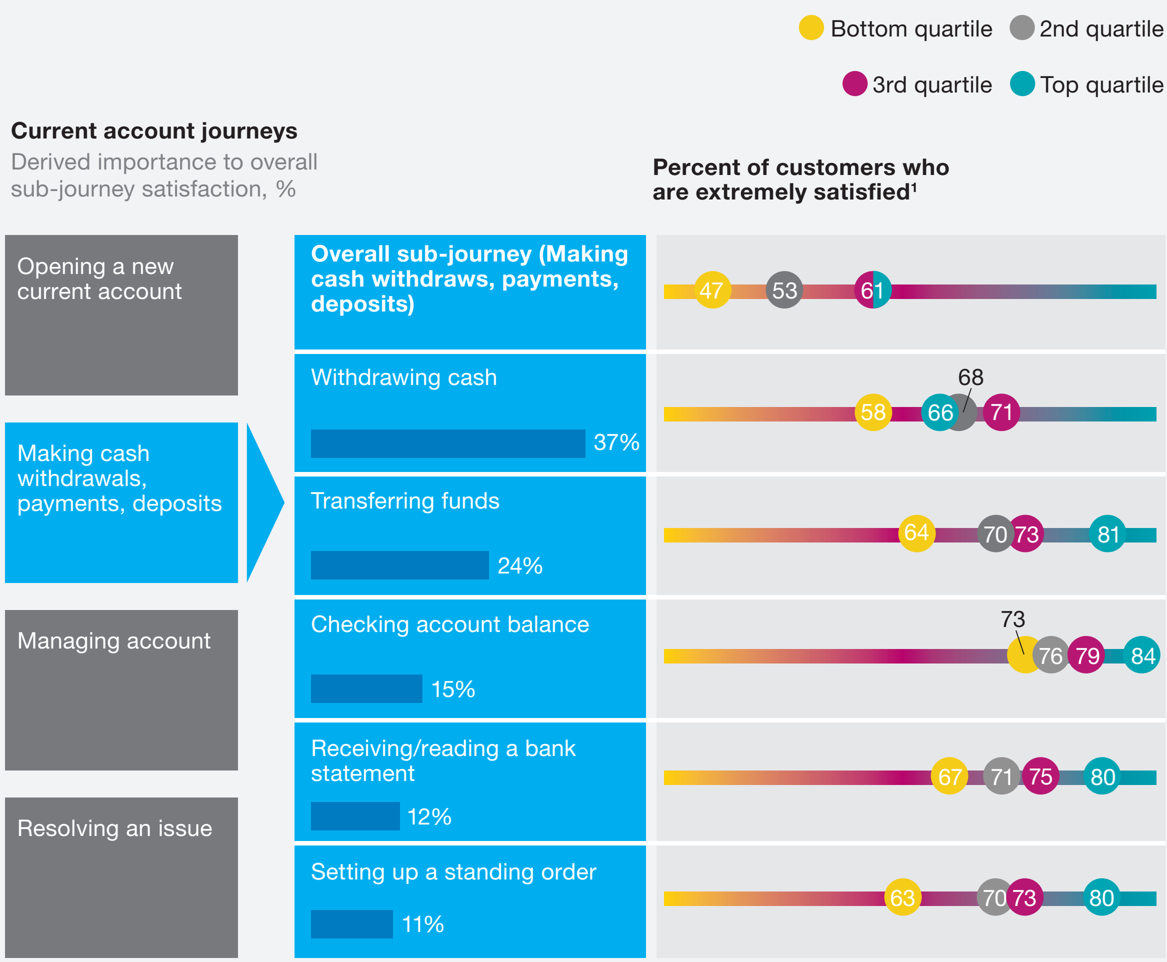
Pitfall 1: Working on isolated touchpoints instead of end-to-end, cross-functional journeys

Too often banks frame their customer experience efforts as a set of customer pain points that need to be addressed; for instance, improving training for underperforming call center employees or speeding up a slow digital mortgage application process. While these efforts are certainly important, looking at customer experience too narrowly risks missing the root causes of these pain points and can lead companies to apply simplistic solutions copied from competitors. It can also be deeply misleading. Research shows that customers may rate single points of contact as satisfactory but then evaluate the whole journey as a bad experience. In our survey, German customers at the top-quartile banks give a CSAT score of at least 80 to four out of the five touchpoints they use when making cash withdrawals or doing payments from their current account. Yet their overall satisfaction with this journey is much lower at 61 (Exhibit 4, next page). Despite ranking the individual touchpoints highly, these customers are unlikely to become the engaged, valuable customers banks are striving for.

Looking myopically at specific touchpoints can also lead banks to invest in the wrong areas or not enough of the right ones. Perhaps your customers are unhappy with the wait times for speaking with representatives at the call center. You invest the resources needed to improve this but customers still are not happy. Their calls are now being answered quickly and each person they speak to is friendly and knowledgeable, but they are still getting bounced between different departments that do not share information or work together seamlessly. Thus, the customer's ultimate goal—to get their issue resolved quickly—is not being fulfilled.

Exhibit 4

A sub-journey perspective can allow retail banks to pinpoint where to prioritize improvements.



[1] Percentage of respondents that selected a 9 or 10 on a 10-point overall customer satisfaction scale. Question: "We would like to understand your experience with your [product] with [Bank]. Overall, how satisfied or dissatisfied are you with your [product] with [Bank]?"

Source: Retail Banking Customer Experience Benchmark Survey (Germany; N = 4,768)

What banks really need to do is approach customer experience from a customer-centric and end-to-end perspective, evaluating all the ways customers interact with the bank and all the intentions and expectations they have when trying to buy a product or address a particular need. The focus should be on whole customer journeys, not just satisfaction scores. Banks need to understand what customers want when they're trying to accomplish a task and what it would take for them to rate the experience as exceptional.

Pitfall 2: Not identifying key customer journeys and defining operational KPIs

Once banks have realigned their thinking toward holistic customer journeys, the next step is to map out all their customer journeys and figure out which ones matter the most. This calculation is a combination of customer-centric factors—which areas customers really wish were better, which ones are weakest, and which are going to have the biggest impact on how people feel about their bank—and value considerations, such as how complex an overhaul will be and how long before it pays off. Our survey shows, for instance, that the process of making payments or withdrawals is the journey that German customers care about most in terms of their current accounts. It drives 52 percent of overall satisfaction with this product category. Within this journey, customers place most value on being able to withdraw cash easily and conveniently (37 percent derived importance).[5]

For each of these critical journeys, banks should determine what degree of improvement will make the most economic sense and generate the most value. This starts with understanding customer "break points"—the stage at which people start to get unhappy. When opening a current account, we found that customer satisfaction gets a score of 60 if the time required to complete the process is less than ten minutes. It drops to 45 if the process takes 10 to 30 minutes and to 34 for 30 to 60 minutes. For mortgage refinance approvals, the satisfaction score is 57 for approvals that happen within one day. If they take one to two weeks, the score declines to 48 and when it's longer than two weeks, there's another drop to 34.

Understanding these break points helps a bank tailor its ambitions and define its operational key performance indicators. How much needs to be invested to create that "wow" experience for customers? Is it worth it, given the expected additional revenue? Some banks will conclude that making big changes to the account opening or mortgage refinancing process will lead to increased loyalty among customers and a higher likelihood of customers making recommendations. Others may decide that changes to these processes are too expensive given the potential value. The important point is to have metrics in place to pinpoint where banks will get the most for their investment.

Pitfall 3: Not identifying which customer segments to prioritize

One reason why direct banks consistently show the highest satisfaction scores in our survey is because they predominantly serve a targeted group of self-directed customers. In contrast, the big private banks, cooperative banks, and savings banks often have a more diverse customer base with a range of differing needs, making it harder to provide superior service across the board. For this reason, these banks rank 10 to 20 percentage points below the direct banks. This highlights the need for banks to identify their various customer groups and determine how important each is to the bank's business. The value of a customer to a bank can vary based on the product or service being offered, and can be measured by number of products, loyalty, credit, or future financial opportunity. Banks need to understand the needs of each group in detail and target the segment with an exceptional and differentiated experience across the end-to-end journey.

One bank, for example, wanted to reinvent its investment services for retail customers and

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[5] Derived importance measures how much the customer satisfaction score is influenced by one variable. Decomposition techniques such as Johnson's Relative Weights (JRW) are used for this purpose.

decided that retirees, followed by families, were its most significant customer groups. The bank then focused on consistently tailoring its communications and support based on the needs of these customers—not on what the digitally savvy 20-somethings designing bank products assumed they would want. For retirees, this meant always making sure to discuss retirement strategies; for families, bank personnel highlighted saving for college and other family needs. The bank also knew these customers still valued human interactions and were not going to want a highly digital solution. It delivered to both groups a traditional, face-to-face advisory process, tangible explanations of the investment risks involved, and personalized follow-up support. Once this was successfully implemented, the bank did create ultimately a digital customer journey for investment services that would appeal to Millennials.

Pitfall 4: Not differentiating when customers value digital channels and when they prefer human interactions

There's no question that digital channels like mobile apps and web sites are increasingly important for German banks. Virtually every bank is following digital trends and developing new solutions. And indeed, customers who use online channels frequently are the most satisfied of all customers.

But with the exception of direct, online-only companies, banks should be careful not to think about channels with a one-size-fits-all approach. In some situations, migrating your customers toward exclusive use of online and mobile channels will increase their satisfaction and yield significant value for the bank. In other cases, trying to move everyone toward digital will make less sense because many customers, much like the investment clients in the above example, still want to be able to talk with human beings.

For example, in our research, 40 percent of German current account customers use only their bank's website or mobile app to open an account, and these self-directed customers are significantly more satisfied with their experience (CSAT 50) than customers who use both offline and online channels (33). On the other hand, for mortgages, only 20 percent of customers use only online channels to obtain these products, and these digital customers are not much more satisfied (42) than those using both offline and online channels (40). This is due to the fact that getting a mortgage is a significant, infrequent, and relatively complex transaction involving large sums of money. Customers like knowing there is someone they can talk to. Thus, for mortgage journeys, banks may want to focus on improving personal experiences between customers and the bank—both at branches and call centers, or by creating remote advisory video call systems. On the other hand, for current account openings, spending time and resources on improving automated touchpoints are likely to be worth the investment. The key is having a granular understanding of customer needs and desires for specific products and then smartly combining digital channels with offline ones, while allowing customers to switch seamlessly between them.

Pitfall 5: Not building a sustainable organizational culture around customer experience

As the saying goes, "What gets measured gets done." To solidify customer experience as a core component of a bank's culture, a consistent measurement system is essential. Every system should have four key elements:

1. *A guiding North Star.* This single, top-line metric aligns the organization around a shared goal, helps maintain consistency in communications, and steers all employees in the same direction. A customer-centric cul-

ture can only be sustained if everyone has a target to shoot for.

2. *A pyramid model.* For a measurement system to be effective, the North Star metric needs to be connected to satisfaction data from every single customer journey across all products, each of which is fed by every touchpoint within that journey. This kind of layered and detailed model ensures a holistic and accurate view of how customers really feel about the bank. It also allows management to understand why the top-line score is or isn't moving and how different changes are affecting it.

3. *A feedback loop.* Banks must be able to respond to feedback their customers give them. This means capturing it in real time, analyzing it automatically using advanced analytics, and then acting upon it as quickly as possible. Listening and reacting to customers should become a standard part of a bank's business.

4. *Role-specific dashboards.* Unless the entire bank cares about creating excellent customer experience, even the best measurement system or customer feedback loop becomes a graveyard of numbers. It's not just branch bankers, call center employees, product managers, and c-suite executives. Even back-office functions like loan approval and processing can have impact on the ease and speed with which customers get their needs met. All of these employees, and others, should have role-specific dashboards that are embedded into their daily work lives and show top-line customer satisfaction as well as scores for specific touchpoints relevant to them.

Getting started on a sustainable, holistic customer experience transformation

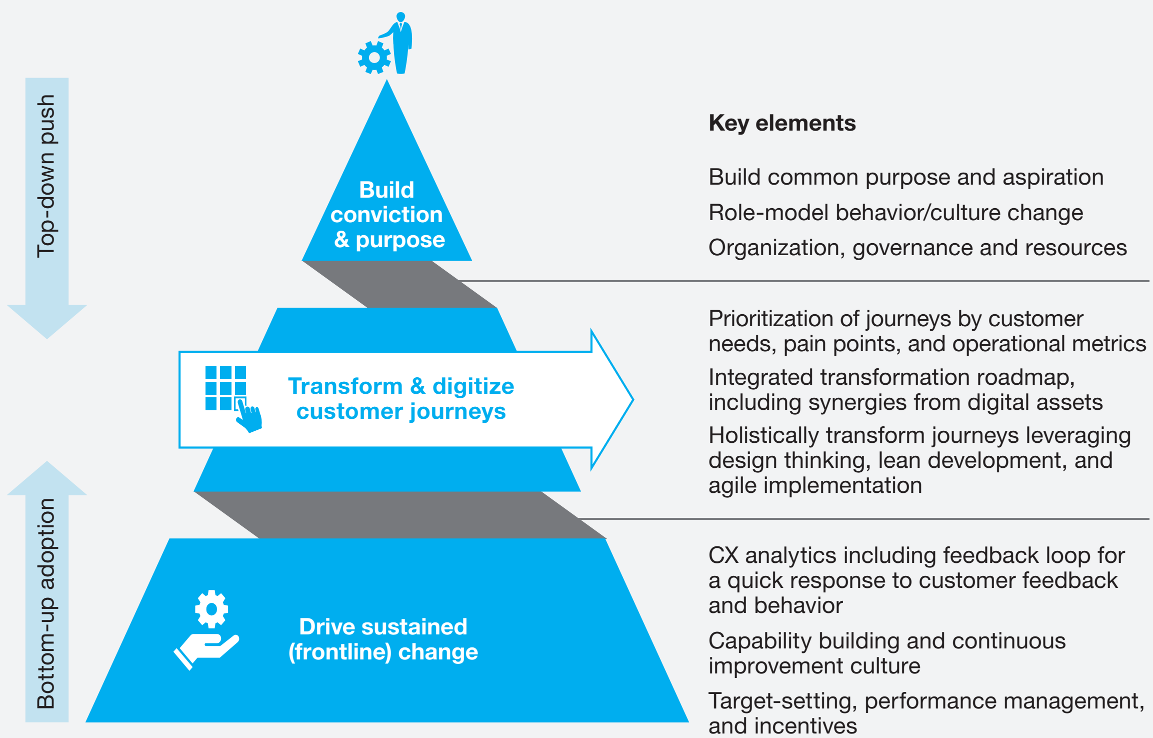
It is not realistic to expect an established company to transform overnight into a customer experience pioneer. The process will be gradual and involve three building blocks (Exhibit 5). Banks that excel in customer experience 1) have a common purpose that's modeled by the bank's leadership and anchored throughout the organization, 2) conduct prioritization and holistic redesigns of key customer journeys, and 3) create a continuous improvement culture rooted in performance measurement systems and capability building. Forming these building blocks and leading a successful customer experience transformation typically takes between two and three years and falls into the following stages:

Preparation (months 1-3): In this phase, banks need to start building a conviction about the importance of customer experience and a common purpose around improving it. In parallel, they need to develop an understanding of customers' needs and expectations; this becomes the foundation for everything that comes after. Banks will use customer considerations and value metrics to identify which journeys matter most and then identify the most pressing pain points within those journeys. They then bring in operational value metrics to assess how much change and improvement is needed. The goals here should be improving customer satisfaction and achieving business impact. Four targets are useful: increased customer satisfaction scores, increased employee satisfaction (which will help boost customer sentiment), higher revenue, and lower costs.

Creating a lighthouse example (months 4-12): Once the most important customer journeys and most pressing customer problems are identified, banks need to design the perfect customer experience in those targets. This should be done journey by journey with a zero-based redesign approach that incorporates everything from concept and testing to implementation. No budget line item is sacred and nothing should be preserved simply because

Exhibit 5

The journey to customer experience excellence depends on three building blocks.



Source: McKinsey analysis

it is the way it has always been done. The focus should be on achieving some quick wins that get the ball rolling and win acceptance throughout the company. Pilots should test and then continuously improve new developments and approaches.

Scaling (months 9-12 and beyond): After successfully testing and redesigning the one or two most important or poorly performing customer journeys and its touchpoints, successful zero-based redesign approaches and their acquired wisdom should be introduced throughout the company. Experience has shown that implementation waves of four to six months for each journey are a good cadence for rolling out new initiatives. At the same time, customer experience measurement systems and systematic performance management need to be set up to track improvements, identify areas still needing development, and keep pushing the entire organization toward an obsession with customer experience. Having clear targets helps people remember what they are supposed to do and why. Regular goal setting and measurement also ensures that a bank does not fall back into old patterns and let customer experience decline.

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Giving customers a supportive, hassle-free, omnichannel experience is a must for banks in today's changing environment. But it is difficult to satisfy everyone all the time, all at once. The key is to pick moves that will produce not just the most satisfied customers, but also deliver meaningful business impact. To do this, banks need to think of customer experience like a new set of eyeglasses. At first, they may feel different or uncomfortable but after wearing them every day, they become a normal part of who you are. Instead of a one-time project, customer experience is a powerful way of looking at the world that can bring tremendous value to a bank's business.

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