



# Customer-led transformation in retail banking

**Retail banks can create superior  
customer experiences by balancing  
the priorities of the 5Cs**

July, 2018



[kpmg.com](http://kpmg.com)



# Letter to our readers

Knowing they needed to boost the bottom line during the recent rebuilding phase of the industry, bankers—like electricity—chose the path of least resistance: they launched traditional cost-cutting programs to plump up the bottom line.

While useful in the short term, cost cutting is not a sustainable strategy for longer-term growth. Who can cut their way to prosperity?

In our view, building the top and bottom lines will rely on banks creating much better customer experiences powered by new technologies, coupled with a holistic digital transformation of the bank's business model that links new processes with bold new strategic initiatives.

We believe banks can achieve these goals by a relentless focus on the 5Cs:

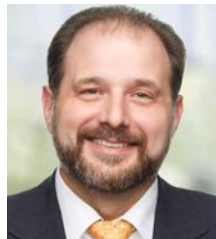
- An unyielding attention on **C**ustomers and their experiences
- **C**ost optimization that is targeted and strategic
- The creation of an organization-wide **C**ulture that embraces change
- Consistent concentration on **C**ompliance
- The pursuit of new **C**apabilities around digital transformation

We offer this paper in the spirit of debate, knowing some who read it will question some of our observations and points of view. We encourage and invite discussion, we look forward to a spirited give-and-take, and we hope you take the time to reach out to us about the 5Cs.

## Meet the Authors



**Jim McAweeney**  
**Principal**  
KPMG Financial Services  
**T:** 630-639-9728  
**E:** jwmcaveeney@kpmg.com



**Scott Szczepanek**  
**Director**  
KPMG Financial Services  
**T:** 630-835-6214  
**E:** sszczepanek@kpmg.com



**John Berry**  
**Director**  
KPMG Financial Services  
**T:** 704-370-4359  
**E:** johnberry@kpmg.com



# The 5Cs

Figure 1: KPMG's 5Cs Framework

Improve **customer experience**

Bankers must place the customer at the center of everything they do.



Reduce **cost**

Create lasting **cultural change**

Increase **capabilities** within the business

Increase robustness of business **compliance**

Simplification of processes will contribute to operational efficiency and provide mistake proofing/reduced errors

Establishing a quality culture through consistency, measures, and ways of working to sustain benefits delivery

Capabilities to be aligned to role, tracked, and in support of a quality mind-set and culture

Improved business controls and regulatory compliance with clarity of measures and procedures throughout the organization

## Competing priorities for executives

CEOs clearly already have customers in mind, judging from their responses in KPMG's 2017 U.S. CEO Outlook Survey, where banking CEO's ranked (seen in Figure 2) their top five strategic priorities over the next three years.

Executives are challenged with balancing competing initiatives, but at the core of almost every priority on this list is the consumer. Whether it's an attempt to attract new customers, retain and deepen customer relationships, or build customer trust, all of these initiatives are customer-centric.

Figure 2: Top five strategic priorities for banking CEOs



Source: KPMG's U.S. CEO Outlook Survey 2017



## Shifting the optimization focus

When, in the past, most retail banks followed the conventional model of creating cost-cutting targets, they began typically by assessing how to improve process efficiencies. Such programs typically put controls in place to sustain the cost and create efficiency gains.

While those programs may have achieved short-term impacts, banks often failed to position their organizations for a shift away from legacy banking toward long-term development.

In our view, when retail banks manage their profit-and-loss centers by product (deposits, credit cards, loans, etc.), the digital- and customer-focused offerings supporting those products tend to stay siloed. That approach often results in an inconsistent experience for customers across products and channels of interaction. Thus, this traditional product-centric approach fails to consider the impact to the customer and their experience.

In contrast, we view a customer-centric transformation as a strategic refocusing of the bank on the customer experience. The result, we suggest, allows a bank to become much more agile, provide the ability to mine vast and disparate sets of data, and analyze them using artificial intelligence (AI) and machine learning techniques. Beyond enhancing the chances for efficiently capturing significant cost savings, building a digital foundation positions the organization to shift away from legacy banking.

Banks must move away from the traditional slash-and-burn technique of cost cutting. Instead, they must adopt a more holistic focus on the end-to-end value chains from the customer perspective. Our experience in the industry indicates that, by taking a customer-centric approach in their digital transformation effort, retail banks are able to realize major cost savings, create a better customer experience, and focus on overall growth.



By continuing to fix the customer service experience, banks can expand and offer rebundled services, while improving their bottom lines and staying competitive.

— Mitch Siegel, KPMG National Financial Service Strategy and Transformation Leader

Source: “Bank Customer Service as a Competitive Advantage,” KPMG, Bloomberg media Group, 2018

## Business Case Example

KPMG supported a retail banking client to complete a customer-led transformation that shifted the bank from a product-focused model to a customer journey-focused model utilizing the 5Cs. The bank’s goals were to reduce their cost base by 30 percent while protecting or enhancing the customers’ experiences.

The KPMG team helped the client identify capabilities that could be reused across multiple journeys to deliver maximum customer value through automation and digital capabilities. KPMG also reduced costs and increased customer satisfaction by maximizing straight-through processing and emphasizing automation through rules-based and case management approaches. Ultimately, KPMG delivered strong benefits across all of the 5Cs for the bank.

- Customer experience became consistent across channels and products
- Process efficiencies delivered a 30 percent cost reduction
- Employee capabilities were increased through a Lean program
- Culture improved with 80 percent higher scores in empowerment and satisfaction
- A refined, comprehensive compliance and control framework reduced the cost of poor quality

## The 5Cs for success

In working with global, national, and regional banks, KPMG has identified five critical areas retail banks have embraced that lead to outperformance in customer-led transformations. While strategizing, banks must contemplate the prioritization of all of the 5Cs they'd like to focus on and pursue, while keeping the customer at the center of their discussions, thus establishing balance across all areas and creating necessary synergies.



### Figure 3: Description of the 5Cs

#### Improve the customer experience

Banks must clean up their processes, improve engagement with their associates, and shift their operations towards enabling an omnichannel frictionless journey. Customers will respond positively with significant increases in satisfaction and engagement rates.

#### Reduce costs and increase capacity

Banks who focus on end-to-end process improvements with their customers in mind see significant gains. One global bank achieved **25–40%** cost reductions across their associated-assisted channels while, at the same time, achieving **20–30%** utilization improvements in its contact center.

#### Improve capabilities

The shift from legacy to digitally enabled processes is dramatically increasing the capabilities of the retail bank. Technology empowers customers to perform many transactions, like deposits and payments, on their own. Bankers and advisors who were once focused on transactions now have the capacity to focus on deepening existing relationships with customers and building new connections.

#### Strengthen compliance

Banks must define key metrics and management routines that ensure compliance monitoring. Strong controls must be in place to balance process efficiency and compliance. For instance, banks utilizing Robotic Process Automation (RPA) should create new control rooms to monitor the utilization and up-time of their software bots and confirm adequate controls for compliance.

#### Sustain the new culture

Culture change is not a cliché; it is a fundamental element of any customer led transformation. Too often change is not sustained as muscle memory sets in and associates revert to the old ways of doing things.

## Customer

A strategy that centers on the customer creates a solid foundation for growth in the banking industry of today and tomorrow. Much of the growth will build on customized services, although to accomplish that goal there must be a commitment from the top of the bank and throughout the organization to remove barriers to transformation that will be powered by digitally enabled solutions, such as behavioral analysis. By using data and analytics tools and process, retail banks can unearth valuable insights about how their customers behave, and then create the customized products and services customers are demanding.

Let's say a bank has a customer who only uses checking and savings. Logically, the banker follows up with an offer for another product, a credit card. This is a simple trigger-based offer using rudimentary data—current customer and contact information. But banks have far more detailed information and must invest time and resources to analyze how to best serve their customers using that data.

In a better data-driven scenario, a bank customer buys furniture to outfit a nursery using a debit card, and with the basic information about that purchase, the bank follows up with the customer and provides a tailored offer on its college savings plans. To make it even better, the bank uses its digital channels to make the offer and provides special deals customized for that particular customer. These tactics can provide a valuable blend of intent and insight, driven by analytic engines to create an experience in which the bank really “knows” their customers and rewards them at important points in their lives.

Banks that have moved from simple, trigger-based offers to analytics-based offers are in a position to realize significant uplift in customers accepting offers. Not only will the chances of the customer service experience be enhanced, but the bank may be more successful in building its brand and relationship with the customer. Banks need to balance their customers' wants and needs with efficient internal operations in order to achieve sustainable, exceptional customer service.

A transformation that lacks this customer lens or enhancement will almost certainly fall far short of its growth goals, and such a missed opportunity could pose an existential threat to the bank. However, by focusing solely on the customer-facing operations, without aligning the rest of the enterprise, the organization will likewise risk failure.

## Business Case Example

With a highly competitive market driven by a rise in interest rates and concerns about the quality of current pricing models, a major U.S. bank was determined to move to a customer-centric, data-driven solution. If they could use advanced analytics to predict how deposit interest rate changes would affect customer behavior, they could also price deposit products efficiently to optimize revenue.

We worked closely with the client team to develop a relationship pricing solution based on a deep understanding of “who the customer is today” and “who they will become tomorrow.”

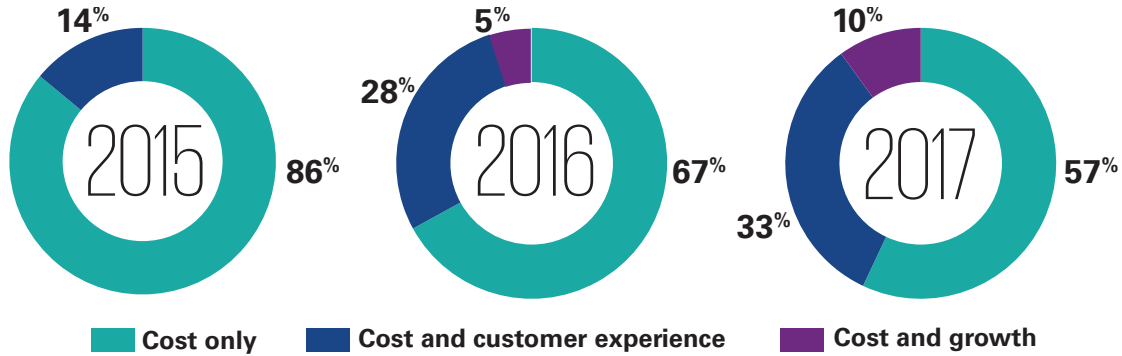
Together we built and implemented a platform for pricing deposit accounts at the most granular level that delivered immediate and significant value based on deeper insight-driven relationships.

Source: “Relationship Deposit Pricing Yields Grow,” KPMG, 2017



# Cost

Cost optimization is much more than just decreasing operating expenses. It's also about balancing and prioritizing customer and business needs. As we have seen in the marketplace from 2015 to 2017, leading banks moved away from a simplified cost-only focus and instead considered improving customer experiences and growth in concert with cost reduction.



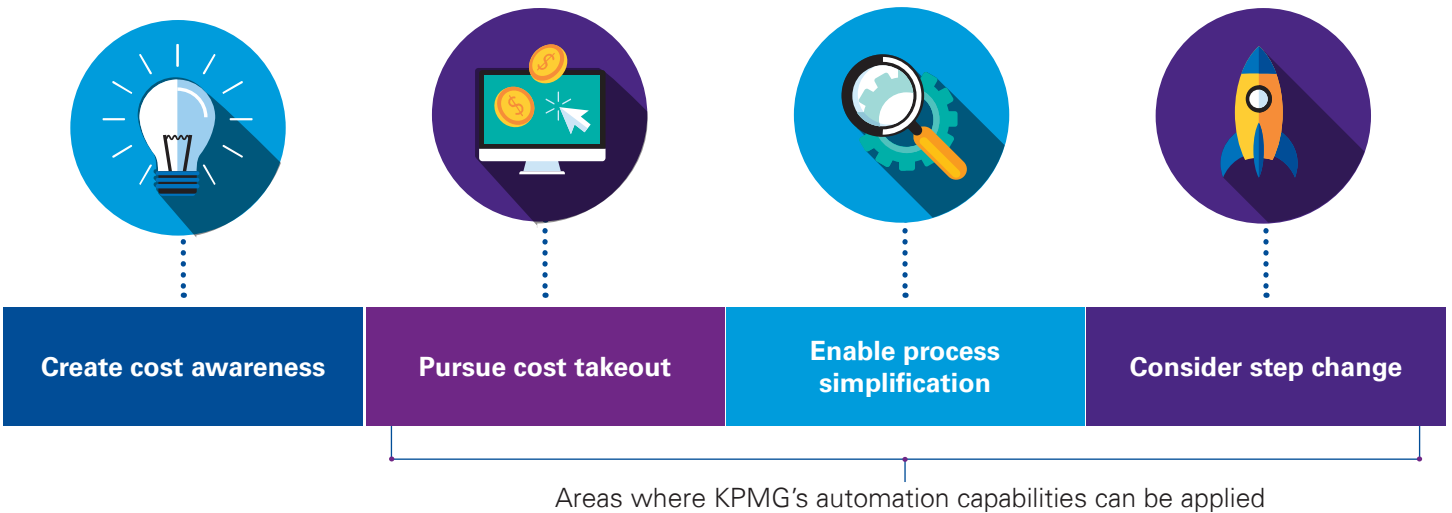
**Figure 4: Balancing the 5Cs**

Source: "Harness the Power of Cost Transformation," KPMG, 2017

To support the balance and prioritization of the 5Cs, a simplified cost optimization plan can help a bank navigate through the journey of establishing sustainable ways of working. Such a plan would focus on balancing operating costs and the consumption of resources while achieving a level of transparency around their costs to realize balanced, optimized growth.

Retail banks can start their cost optimization journey with the following four steps.

**Figure 5: Cost Optimization Journey**





**1) Create Cost Awareness** – Gain transparency on the true cost to serve/cost to deliver

Establishing clarity of the unit cost or “Cost to...” values provides an increased focus on areas for traditional cost takeout and improved balance of customer interactions. Application of end-to-end value chain methods to gain a deep understanding of the overall cost and linkage to customer experience/expectations allows a bank to be realistic in its planning and preparation for a customer-centric transformation.

**2) Pursue Cost Takeout** – End-to-end value chain optimization and application of artificial intelligence

Once bank management identifies the costs to target, the bank must complete an end-to-end evaluation and take steps to optimize its value chain. Many retail banks are driving remarkable efficiencies through the application of artificial intelligence, including robotic process automation (RPA) in a variety of areas within bank operations, while maintaining and improving customer service and balancing the savings of personnel costs with the price of technological advancements.

**3) Enable Process Simplification** – Simplify the process and dedicate savings to invest in updated customer experiences

Once cost opportunities are identified, a bank can apply cost-optimization capabilities to deliver results that matter. Process simplification is a delicate area of focus, due to the need to balance the optimization of the old and development of new, more efficient processes. As banks embark on their transformation journey, senior leadership must make the decision to reinvest some cost savings from simplifying processes across the value chain to fund the development of improved customer experiences. Processes should be built in place to ensure that scarce funds are used to build out agreed-upon priorities based on their customer-centric goals.

**4) Consider Step Change Transformation** – Use data and analytics to enhance omnichannel customer experiences and transform business operations

After refining the bank’s value chain and producing cost savings, the bank must reinvest in transforming and creatively improving customer solutions. According to Bloomberg’s 2017 Q2 earnings calls, multiple banks have faced a relatively large growth in their digital and mobile customers. Spain’s BBVA is appealing to its customers by using its online platform to expand its market presence in the U.S. Sunbelt. By making this transformation, BBVA has seen a 22 percent increase in the last year in their global digital customer base. Likewise, mobile customers increased 42 percent in the last year to almost \$15 million as the bank uses technology to expand in new markets. Other retail banks should follow suit and utilize cost savings to place an emphasis on offering customized services that clients expect and demand or risk losing those clients and their additional business.



# Business Case Example

KPMG recently worked with a retail bank to introduce RPA into a customer maintenance process to create better experiences for the customer and improve efficiency and data quality. Associates were having to update a customer's address on several systems, one for each product the customer used and were making errors due to the variable input requirements, which led to poor customer information, increased print and postal costs, and customer frustration at having to repeatedly provide address corrections. After applying RPA technologies, the bank's associates now gather the address from the customer once and use a bot to complete the remaining work. The result provides accurate data for the company and improved experiences for the customer and the bank associate. Additionally, the time the associate spends on the task is dramatically reduced, thereby reducing the cost to serve and redeploying that labor towards satisfying the customer.



## Capabilities

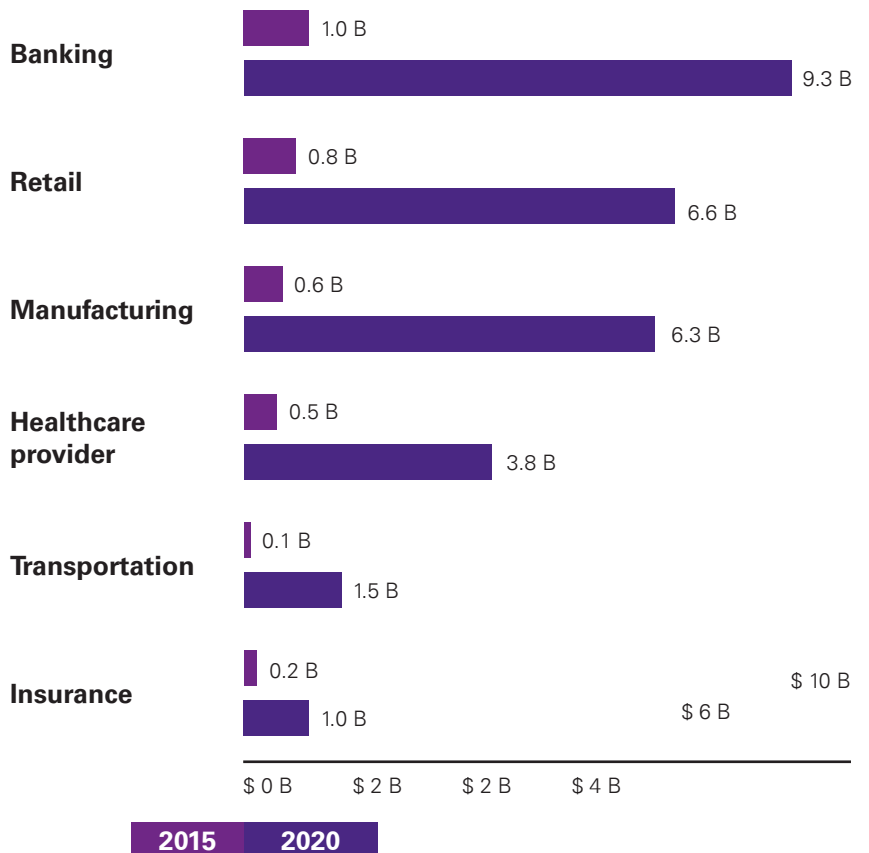
A retail bank's capabilities encompass front-office interactions with customers and back-office functions and supporting groups. While there are multiple manners in which companies can pursue transformation initiatives, KPMG's experience with global financial institutions has allowed us—and our clients—to not only better frame opportunity cases but also effectively execute against these opportunities by leveraging automation at various stages and classes.

Artificial intelligence, ranging from basic RPA to more data-intensive cognitive applications, is particularly applicable in an environment where associates must log in and out of different systems to complete basic sales and service transactions, or when they must open files, extract information, and input that data into a different system to complete a task. This situation is familiar to any retail banking executive who manages branches or call centers where a history of acquisitions has led to a patchwork quilt of legacy applications. That scenario forces associates to log into multiple systems simultaneously and then manage between them in order to complete everyday sales and service activities. In hopes of mitigating these problems, the banking industry spending on AI products exceeded all other industries in 2015, and will continue to be the case through 2020, according to Bloomberg intelligence.

### Figure 6: Industry Spending on AI

Source: "Bank Customer Service as a Competitive Advantage, KPMG U.S., Bloomberg Media Group, 2018

In billions of dollars



KPMG applies automation capabilities to complex business models and has assisted clients in deploying a variety of classes of automation to exploit technology and help clients improve efficiency. We also acknowledge how advancing the bank’s capabilities oftentimes results in the need to repurpose or expand upon the capabilities of bank employees. KPMG has developed accelerators and tools necessary to aid human resource functions to shape the workforce in an agile way so as to not lose great talent but instead enhance and empower them as intelligent automation disruptors are deployed.

**Figure 7: Workforce Planning**

Source: The Future of HR. KPMG, 2018



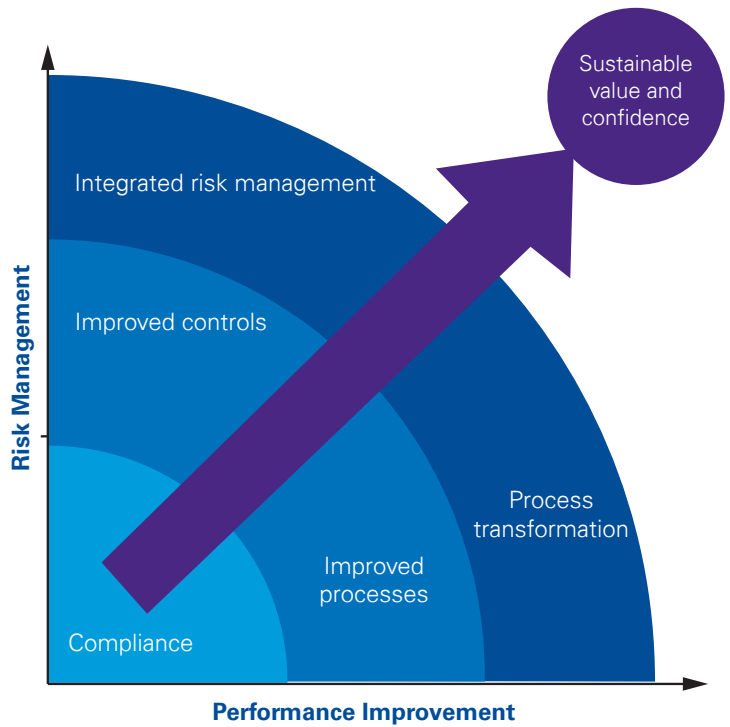
# Compliance

Compliance teams should be a part of the conversation from the initial stages of any transformation to help balance risk management and performance improvement. Retail banks need to consider compliance in balance with the other Cs in order to truly transform. For example, retail banks should no longer design their onboarding processes strictly around compliance, but instead balance some of the other Cs such as customer and cost as well. In addition, a continuous process should be established to assess potential impacts of technology advancements on existing compliance processes, systems, and controls.

Recent actions highlight that financial services regulators have increased their expectations for banks to sufficiently evaluate their firm’s risk management framework. Automation can increase the effectiveness of controls and risk management, reducing the overall cost drivers related to internal and external compliance pictured below. Built-in controls also can reduce the number of staff and time spent performing testing and auditing as well as minimize the amount of overall errors and rework, therefore increasing productivity. The increased use of analytics and data visualization tools can enable a bank to focus on drivers of strategic value and business performance due to improved risk assessments. Overall, automated, preventative controls and compliance processes will shift the focus from testing to business processes and compliance enhancements and produce new operating model insights, while reducing cost.

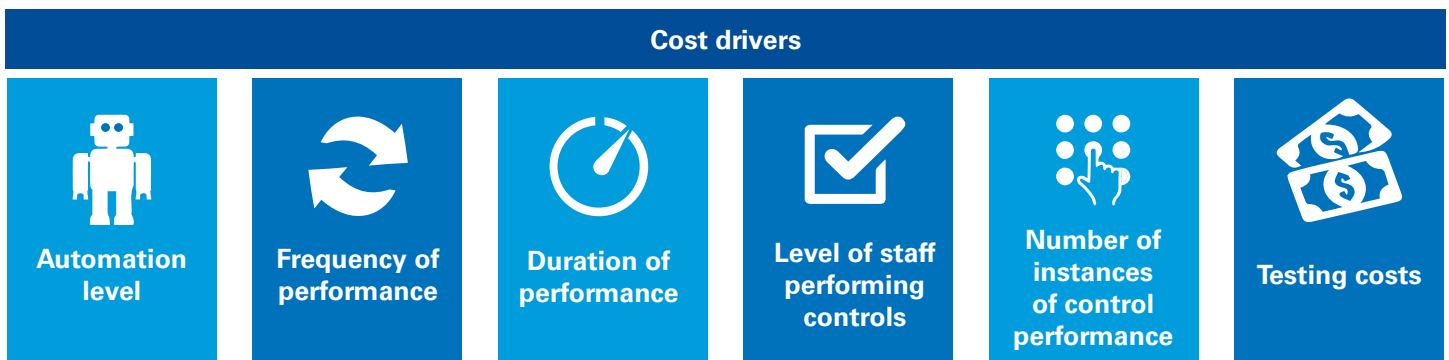
**Figure 8: Importance of Compliance**

Source: The Future of Finance. KPMG, 2018



**Figure 9: Costs of Compliance**

Source: The Future of Finance. KPMG, 2018

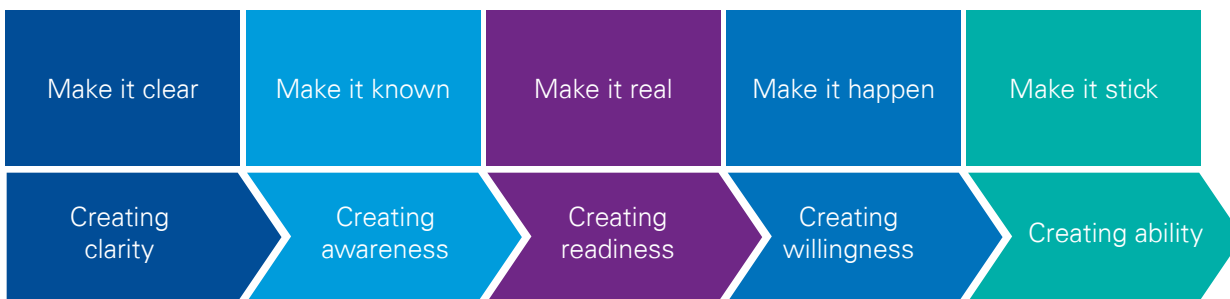


# Culture

Transformations cause major changes for both the collective organization and its individual employees and bring about a roller coaster of responses and emotions. With proactive and structured change management, the loss of productivity associated with a change effort is minimized and anticipated benefits are realized more quickly and completely with more sustainable results. Effective behavioral change management enables leadership buy-in and empowers employees to implement change.

In order to help ease the pain of change, it is important for banks to work through the following five steps.

**Figure 10: KPMG's Behavioral Change Management Method**



1. Make it **Clear**: Align leaders around the strategic aims, ambition, and scale of change.
2. Make it **Known**: Communicate the change vision and case for change and begin to create ownership of the solution.
3. Make it **Real**: Translate the change vision into reality for people in the organization and define what it means for them.
4. Make it **Happen**: Move the organization towards the end state and equip people to work in new ways.
5. Make it **Stick**: Ensure there is capability in the organization to sustain the change.

## Business case example

When undergoing a full-scale compliance-focused technology transformation, a large top 10 domestic bank worked with KPMG to study how the change would affect its employees and the overall culture of compliance at the bank.

Multiple training modules, including interactive deep dives on complex topics, were designed, which dealt with anti-money laundering, the avenues within which concerns could be reported, and the policy newly put in place by the bank's new enterprise-wide compliance group.

This enterprise program was successfully launched in the second quarter of 2016 and by the first quarter of 2018, was marked as having a lasting impact, as evidenced by a 30 percent increase of incident and employee self-reporting to FinCEN, the U.S. Department of the Treasury's Financial Crimes Enforcement Network.

# Why should you work with KPMG?

KPMG's business transformation approach across all industries is customer-oriented, innovation-driven, and technology-enabled. We know how your business works by working shoulder to shoulder with clients to help align their strategic and financial objectives. Our approach connects strategy with execution by aligning the required business and operating models, organizational culture, and change management capabilities in order to achieve the optimal value from transformation.

KPMG delivers the results that matter by helping retail banks put customers at the center of their transformation efforts, while balancing the rest of the 5Cs in order to open up opportunities for growth, with a cost and operational model that banks can afford within the current market environment. We know how to get things done as our team has worked with global, national, and regional banks on customer-led transformations geared toward assisting retail banks transform their people, processes, and technologies. The typical results are cost savings on the order of 20–30 percent, supported by a roadmap to shift from legacy technologies to digital platforms releasing capacity, delighting customers, and positioning banks for future growth.





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)

