ATKEARNEY

Retail Banking in Times of Crisis

A five-pronged strategy for success after the financial downturn

After years of growth and prosperity, the retail banking industry faces a daunting task in reversing the disastrous effects of the global economic crisis—plummeting sales and narrowing profit margins. An even bigger challenge is to recoup a loss that cannot be quantified: consumers' lack of confidence in the banking system. In this paper, we offer five strategies for success that can help banks, particularly those in German-speaking countries, increase revenues, reduce costs and restore consumer confidence.

In the first year of the financial crisis, many banks posted shocking losses, related mainly to securities write-offs and dramatic falls in investment banking. While investment banking has improved somewhat in recent months, retail banks are still experiencing the repercussions. Savers are still opting for the relative comfort of fixed deposits and government bonds rather than higher-margin, higher-risk equity funds and certificates. For retail banks, this has meant declining revenues—a situation that will only get tougher as personal bankruptcies increase, credit defaults rise and equity requirements become more stringent.

We do not expect this trend to reverse any time soon, so retail banks must realign their business models to capture their pre-crisis profitability in current market conditions. A look back at the recent past in banking will help define the way out of the current crisis—and frame the potential for future growth.

From Prosperity to Survival

As globalization opened up new markets in the past decade, the financial industry prospered. Low inflation, low interest rates, an aging population and increasing wealth levels generated a slow but steady shift toward higher-margin wealth-management products. Technological advances increased back-office efficiency to reduce costs.

The result was extraordinary growth in the financial services sector. In the United States, banks accounted for more than a quarter of corporate profits; in Switzerland, the Netherlands, France and Austria, bank assets exceeded by several times the national GDP—resulting in a dangerous dependency for local economies. Even if the financial crisis had not occurred, the surplus supply in financial services eventually would have triggered competition, consolidation and a long period of adjustment. The downturn, however, accelerated and intensified these events.

Banks, once seen as corporate—and even community—role models, lost much of their luster as their business models built around attractive high-margin products collapsed. Some disappeared overnight, others were nationalized, still others were forced to break up and sell profitable business lines.

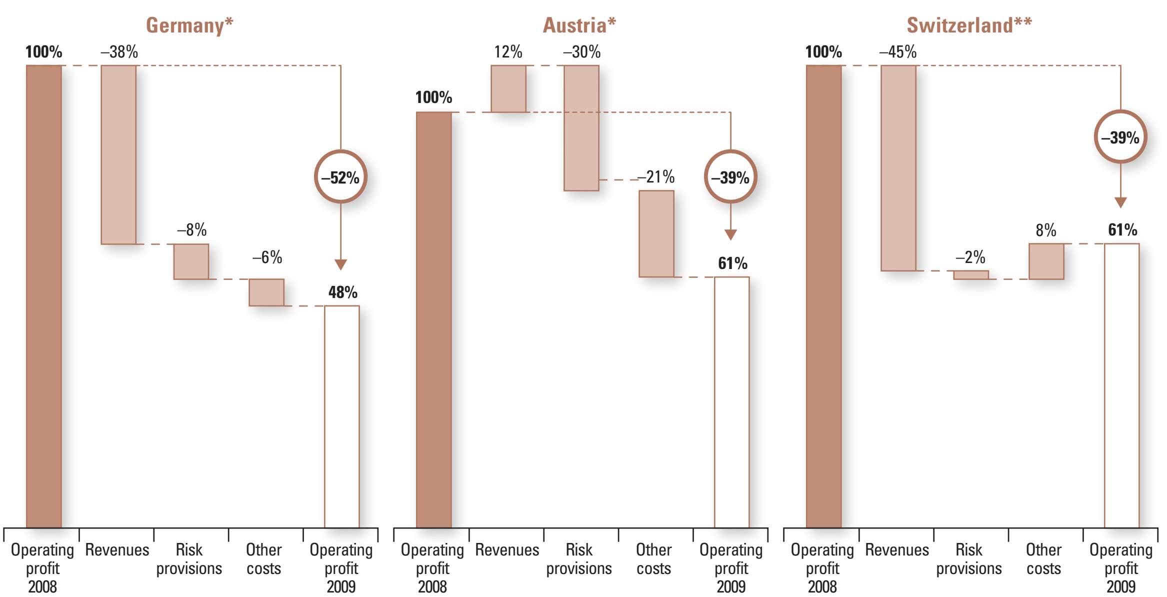
Past profitability is by no means a guarantee of future success, as demonstrated in markets across the globe. Our recent analysis of banking reveals that German-speaking countries have been confronted with different problems. In Germany, the crisis severely affected the revaluation of risk, spurring sharp losses and value adjustments of credit and securities. Even now, as the crisis eases, the threat of further losses remains. While engagement in toxic papers and securitization is somewhat limited due to the numerous retail banks (as opposed to wholesale), the downturn will lead to further losses and value adjustments of company credit, bank and government loans.

In Austria, banks were bashed by capital markets and regulators amid growing worries about risks in Central and Eastern Europe. With consumers riding a wave of higher living standards over the past decade, lending had become a vital source of revenue for banks—one that today is drying up. As local economies slowed down, highly leveraged industrial plants and consumers who borrowed in euros or Swiss francs were hit hard by the collapse of their national currencies.

In Switzerland, private banks suffered a drastic decline in assets due to negative performance

Figure 1

Retail bank profits decline in three countries



Notes: Analysis covers between 20 and 40 percent of market, as measured by number of customers. For Germany, only commercial banks are considered.
** 9 months 2009 versus 9 months 2008*
*** First half of the year 2009 versus first half of the year 2008*

Sources: A.T. Kearney analysis; company websites and fund withdrawals. If there were any winners in the crisis, it was Switzerland's regional and cantonal banks: They enjoyed an influx of new money as trust in bigger banks eroded. The challenge for these winners will be to retain their new-found financial strength by holding on to their new clients.

Shakeups and New Paradigms

The developments of the past year have been dramatic, but the story is far from over. In fact, we believe that for retail banks, the structural challenges of 2009 will continue into 2010. Several indicators point in this direction.

First, during the first three quarters of 2008 German banks reported a 4 percent increase in earnings before interest and taxes (EBIT) compared with 2007. But by the end of the year, the same banks reported that EBIT had fallen 6 percent against 2007.

Also, favorable treasury curves helped retail banks record sound results since 2008 despite significant shifts of client assets to low-margin products. This effect faded over the past several months as central banks began providing cheap funding and high-interest customer deposits were no longer required. Another indicator is the storm of corporate bankruptcies and personal defaults. In Germany, leading researchers expect consumer insolvencies to rise up to 40 percent. Although corporate defaults are expected to fall by 22 percent compared to 2009, total volume remains twice as high as in 2008.

Lastly, banks are being confronted with a loss that cannot be quantified in euros or dollars: Clients have lost their confidence in the financial system. They might continue with their traditional banks for the time being, but may turn to other financial partners for new decisions. This is a problem that few banks have addressed seriously.

Figure 1 shows the development of operating profits and the various costs of retail banks in 2009 for German-speaking countries, and indicates the challenges that countries must prepare for *(see sidebar: An Assortment of Challenges on page 5).*

A comprehensive transformation can yield sizable performance improvements and help retail banks regain their pre-crisis earning power.

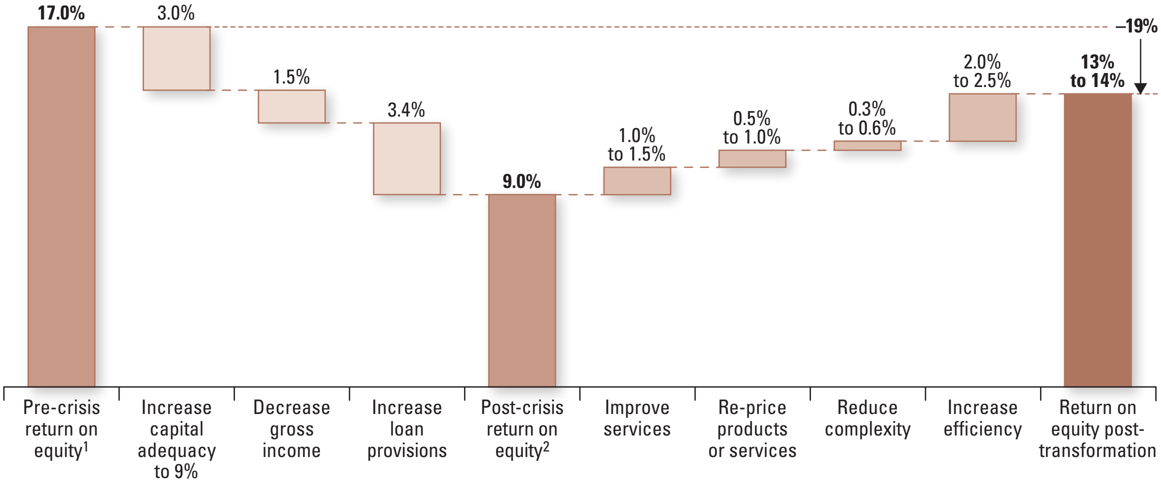
Fixing the Core Business

In recent years, retail banks focused on attracting new clients and tapping new customer segments. The dramatic decline in profitability and the widening revenue gap are difficult to bridge with a limited number of clients. However, banks that can secure their core retail clients will re-emerge as winners of the crisis. Increasingly, banks must deliver what today's clients want—simplicity, transparency and convenience—while finding new sources of revenue and profitability. This will require structural changes, innovation and differentiation from competitors.

A comprehensive transformation that employs measures across the value chain can yield sizable performance improvements, help realize the full potential in terms of revenues and costs, and can help retail banks regain their pre-crisis earning

Figure 2

Potential profitability improvements by making additional structural changes



[1]*Average 2007 and 2008 return on investment for select European retail banks*
[2]*Includes operating expenses and extraordinary results and taxes*
Note: Analysis excludes the effects of currency devaluation, changes in subsidiaries' equity interests and the impact of government loans

Source: A.T. Kearney analysis

power. As shown in figure 2, our analysis finds that banks that transform their operations could realize a significant increase in profitability—possibly achieving a 13 to 14 percent post-transformation return on investment.

In the belief that times of change are also times of opportunity, we offer the following five-pronged strategy that can help retail banks find new revenue sources and tap existing cost-cutting potential *(see figure 3)*.

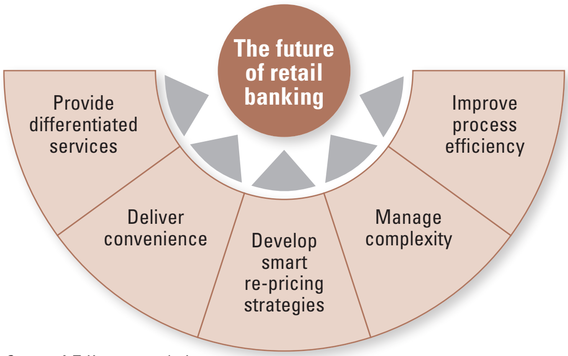
1. Provide Differentiated Services

Many European countries are considered "overbanked." In Spain, for example, there is one branch bank for every 1,000 citizens. On the other extreme is the United Kingdom, where the branch-to-citizen ratio is now one per 5,000 after a wave of branch closures in the late 1990s. We think, however, that the debate surrounding service models focuses disproportionally on branch density.

In Germany, 2,000 clients per branch may appear lavish from a bank's perspective and comfortable to a client. Delving deeper, however, market benchmarks show a range of one adviser per 800 to 1,250 clients, and assuming a rough

Figure 3

Five-pronged strategy for the future of retail banking



Source: A.T. Kearney analysis

An Assortment of Challenges

Statistics reveal a significant loss of profits, but European banks are confronted with different challenges *(see figure)*. They must be prepared to combat the looming threats to their businesses and operating models—cosmetic improvements aren't enough.

Today's challenges can be grouped by revenue streams and cost structures:

High-net-interest income and good cost structures. Most European countries relied on growth in real-estate lending. The recession has left a revenue void, as demand for credit wanes and the appetite for subprime loans has faded. For efficient institutions that already had strong cost structures, it is a precarious situation: They have fewer moves to ease the current situation and face a slow recovery.

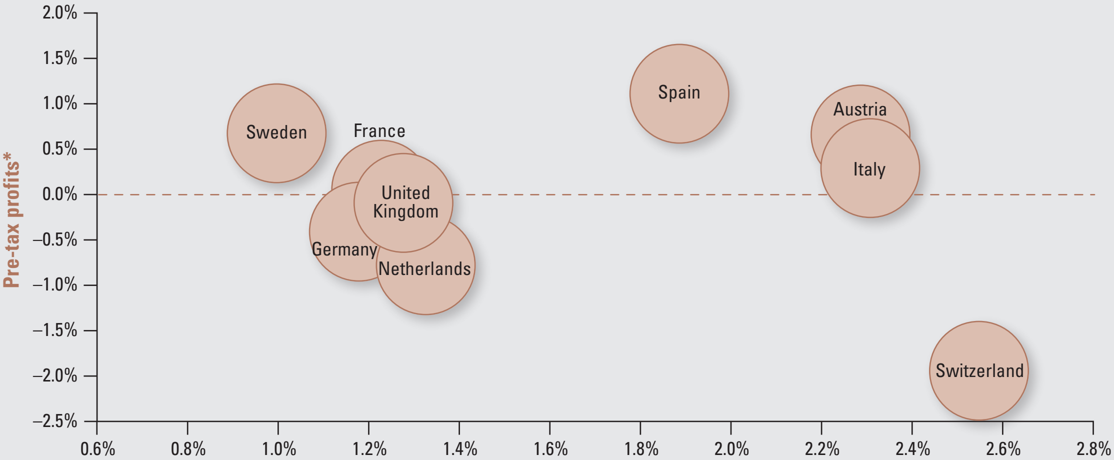
Banks in Germany, the Netherlands, France and the United Kingdom fall into this category. In Germany, for example, low revenues led to low profits but efficient operations kept costs low. Poor interest margins cannot easily be reversed by fee increases, especially in urban centers where intense competition has spawned price wars.

High-net-interest income and poor cost structures. Although they feel the pain of the credit crunch, banks in this category have a powerful tool at hand to ease the pain: costs. Many Central and Eastern European (CEE) and Russian banks fall into this category, as do those in Austria, Spain and Italy. For these banks, previous growth opportunities outweighed the need to keep costs low, and they can feasibly offset some of their risk by managing costs without affecting service or potential growth.

In Austria, where real-estate prices are holding steady, banks have fewer worries in their lending portfolios, and as asset-management holdings still lag other European countries, the impact on banking fees remains limited. The crucial impact is in CEE, where there are serious short-term challenges but the mid-term outlook for revenue growth is compelling. There is significant synergy potential in CEE, where Austrian banks could reduce costs and increase efficiency.

High share of fee-based income and poor cost structures. Although marginally affected by the decline in lending, banks in this category were hit hard by recent decreases in asset values, more fund withdrawals and clients' demand for lower, more transparent prices. Banks in Switzerland fall into this category. Now is the time to reverse the situation.

Figure: Bank profitability in select countries



**Pre-tax profits and operating costs are a percentage of total assets*

Source: Bankscope

estimate of 1,500 working hours a year, that means an adviser can spend an average of about one hour a year with each client. (Worse yet, this does not include a still-substantial number of non-client or administrative tasks, so client time is even less). The result is obvious—customer contact is limited, and those who are contacted are not always the most promising clients. To alleviate this, banks must adjust their advisory efforts according to their clients' respective potential. The trick is to assess just how much potential each client has.

Of course, matching customer contact with customer potential is more art than science. Customer data other than the usual demographic, income and investable asset information must be evaluated. True potential often hinges on wallet-share, lack of old-age provision, expected real estate investment, changes in product usage and transaction history, customer satisfaction records, and past and existing experiences with other banks, among other things. At the same time, banks cannot underestimate the potential of new clients, young professionals or clients with relatively small financial assets *(see sidebar: Pursuing Niche Markets).*

A powerful customer relationship management (CRM) system and strong data-mining capabilities are vital for determining client potential. While bank databases store much quantitative information, advisers must know how to capture certain qualitative information during their interaction with clients. This requires training that focuses on uncovering untapped needs and exploring alternative bank relationships. Structured procedures and adviser incentives (and consequences for non-compliance) can significantly improve the process.

In addition to the initial identification of client potential, regular reassessment and, if needed, re-categorization are critical. Our experience shows that up to 50 percent of clients

Pursuing Niche Markets

Serving niche clients is not "off the table," but timing and effort are vital. Segment size matters more than ever, as does the ability to keep costs down. Several niche segments are worth considering, due to their size and potential:

Low-income clients. Roughly 12 percent of customers in Western Europe earn less than €10,000, and in Eastern Europe, nearly half the population qualifies as low-income and generates more than a quarter of total spending. However, low-paying jobs are often the first to go in any crisis. Banks need to recognize the need for micro-financing and assess its risks.

Immigrants. Downturns often bring streams of migrant workers across borders for better living and employment opportunities, and this is happening throughout Europe. Immigrants account for 10 percent of Spain's population, and more than 8 percent of the U.K. population. The most important task for attracting this niche is being able to communicate in the customer's native language. Other keys are simple transaction services, low prices and assistance in dealing with authorities.

Recent graduates. Historically, banks have marketed to students, but few continue that pursuit after graduation, even as young adults move into the workforce and become investors. These young people typically represent between 5 and 20 percent of the population in European countries. A balance between standardized offerings and a personalized approach through remote channels, such as dedicated remote advisors, appeals to this group.

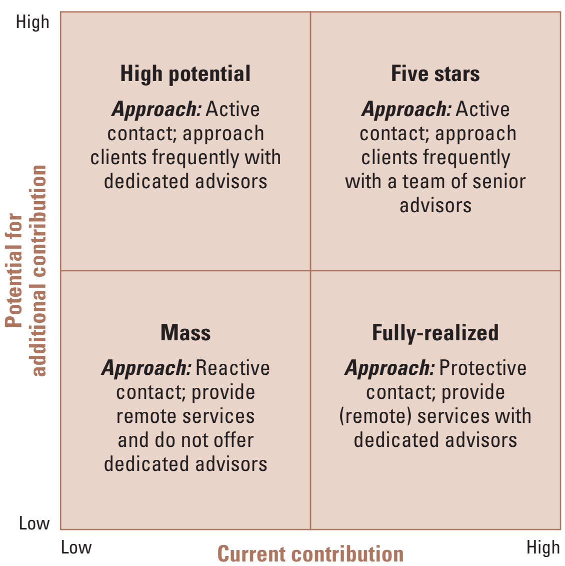
are allocated to the wrong segment, a mistake that has dire bottom-line consequences, leading to low-profit clients getting costly service while high-profit clients are overlooked. It's also important that re-assessments of client potential are conducted at a central level, which requires checks on all changes made by individual advisers to account for personal biases that may cloud true potential. While gauging client potential is difficult, it is even more challenging to create and implement differentiated strategies based on that potential. There are several elements to consider:

Model the service to fit the client. Service must be modeled to fit client potential, including frequency of contact, channel mix, product offering and standard messages. Clearly, lower-potential clients are approached less frequently through alternative channels, while high-potential clients get regular, personalized attention *(see figure 4)*.

Figure 4

Client segmentation framework

Illustrative



Source: A.T. Kearney analysis

This latter group requires a comprehensive multichannel mix and an automated process that triggers regular—and appropriate—contact.

Determine the appropriate client-to-adviser ratio. The optimal ratio of clients per adviser is determined by client potential rather than competitor benchmarks, which run the risk of leaving significant revenue potential on the table. Our experience shows that up to 20 percent more revenue can be generated by assessing the appropriate client load, and widening the load spread based on client potential.

Understand the new branch role. Although more customers are banking online, up to 80 percent of sales are still closed at bricks-and-mortar branches. Branches, however, are still the most cost-intensive channel and therefore should be used in a targeted and profitable way. Make sure space-intensive, full-service branches in expensive urban locations make economic sense. Are larger branches in locations where personal advisory services are needed paying off? Would a "small-shop" alternative work for city centers, where basic products could be offered in a smaller space, similar to "express" versions of restaurants and combined with less costly self-service options? These are just some of the questions that bank's should be prepared to answer.

Develop multi-channel innovation and reach. While the branch may retain its leading role for some time to come, alternative channels are quickly gaining prominence. As younger generations lack the bond to branches and demand information and services anytime and anywhere, leading banks have steered more than half of their transactions to the Internet. Mobile phones in particular are gaining importance in the payment field, and several institutions already offer quick, convenient and simple ways to use mobile Internet to check balances and spend money.

2. Deliver Convenience

The second element of our five-pronged action plan is delivering convenience. As markets recover and clients regain confidence in the financial system, sales will pick up across all product categories. Moreover, the big sellers will not be new product types, but instead existing products with enhanced features—particularly, anything that makes banking more convenient.

Electronic billing, "e-statements" and mobile banking not only offer customers simple ways to control their finances, but also move activities and costs out of branches and back offices.

An emerging theme across most service industries is that convenience is rapidly becoming the minimum consumers expect from a product in this fast-paced world, where time is limited. Convenience is more than simplicity in product design and speed in delivery; it also means a stress-reduced purchasing process. In retail, space planning, store infrastructure and new point-of-sale technologies (such as in-store communications and express cash points) top the agendas of store designers. Recent studies have found that comprehensive solutions for creating "peace of mind" are gaining popularity among consumers.

Convenience is not exactly new in the banking world. Many banks offer extended business hours ("banker's hours" are a thing of the past), provide around-the-clock online banking, and offer real-time communications through email alerts. Yet the bounds of convenience are still growing. The challenge is to include convenience in product design, both in terms of features and customer experience, by following these steps:

Simplify and automate. Consumers increasingly value services that reduce time and trouble. Airlines recognized this and revolutionized their industry by allowing customers to create boarding passes online and at self-serve airport kiosks. Retailers, meanwhile, are reducing their offerings to make shopping easier *(see sidebar: Lessons from Retail).*

Banks, particularly those in the United Kingdom, are following suit with electronic billing and payment, "e-statements" and mobile banking. These new features not only offer clients simple ways to automate and control their finances, they also move a significant chunk of activities and costs out of branches and back offices.

Barclays, for example, studied the daily routine of Londoners before introducing its Barclaycard OnePulse, which combines credit, contactless payment, public transportation and purchase payment functions into a single card. The advantage for the client—convenience.

Manage finances professionally. As the complexity of financial products increases, managing personal finances becomes more challenging for clients. It is common today for people to have multiple bank relationships and several credit cards, not to mention investments, insurance and mortgages. Maintaining a clear overview of one's finances, let alone choosing from a daunting number of offerings, is usually neither quick nor easy.

Many software solutions offer "handy tools" for consumers to get a one-stop view of their personal finances. In Spain, BBVA Group's Tu Cuentas money management system allows customers to see their account balances and transactions with different banks in one location. Users can categorize their transactions and benchmark them against peers' spending, set limits per expense category, and receive alerts when those limits are exceeded. Tu Cuentas also makes personalized product offers and helps clients find new ways to save, invest or even spend. A week after its launch, 100,000 users signed on—and the number continues to grow.

Live-chat functionality is also emerging. Experts say that chats shorten research time by pointing the customer to the most relevant information or best offers. Clients benefit from quick, qualified advice while still surfing for product information. Many banks have actually found chat to be easier, quicker and more personal than more traditional options. For example, U.S.-based Citibank reports that 90 percent of its live-chat users complete a home-equity application. Although not yet common in Europe, live chat can personalize the online experience and supports the client decision-making process in an unprecedented way.

Get the best returns. Several products have emerged on both on the savings and lending sides that can generate higher returns. A U.K. building society has launched a savings product that promises to match the average interest of the five best offers among the nation's eight leading banks. Thus clients no longer need to track interest-rate developments or search on their own for the most competitive rates—the bank does it (conveniently) for them.

On the lending side, a top U.K. retail bank offers an offset-mortgage product that allows clients to save by setting their savings and checking balances against the outstanding mortgage, and paying interest only on what remains. Although clients do not earn interest on their savings, they

Lessons from Retail

For years, supermarkets, drugstores and discount retailers packed their shelves with an ever-expanding array of products in different brands, sizes, colors, flavors, fragrances and prices. Now, however, many believe in "less is more."

Retailers are cleaning up the clutter, catering to budget-conscious shoppers who want simpler shopping trips and familiar products. Eliminating certain products can actually boost sales and cut excess inventory—vital bottom-line benefits.

For example in the United States, drugstore chain Walgreens is cutting the number of superglues it carries from 25 to 11; Wal-Mart now sells four tape measures instead of 24; and grocer Kroger is considering reducing its cereal offerings by 30 percent. Experts expect retailers to reduce the assortment of products by at least 15 percent.

Manufacturers that have grown accustomed to churning out seemingly endless variations of popular products to maintain shelf space and brand awareness will have to change their tactics. For consumers, the shift may mean less variety but will help them sort through what can be a bewildering array of offerings.

are not taxed either—and in most cases, they save more on their mortgage payments than what they would have earned in savings. Besides being convenient and advantageous for clients, the offset mortgage helps the bank consolidate client accounts and better evaluate clients' financial potential. Similar products have been launched for term deposits.

3. Develop Smart Re-pricing Strategies

Pricing has been a major concern for banks. Typically they have restricted their actions to aligning their structures selectively or responding to market conditions. Meanwhile, different pricing levels have emerged with prices in Germany relatively moderate compared to other European countries. Figure 5 highlights management fees in various countries. If retail banks are to be as profitable as they need to be, the question is not whether to re-price but how.

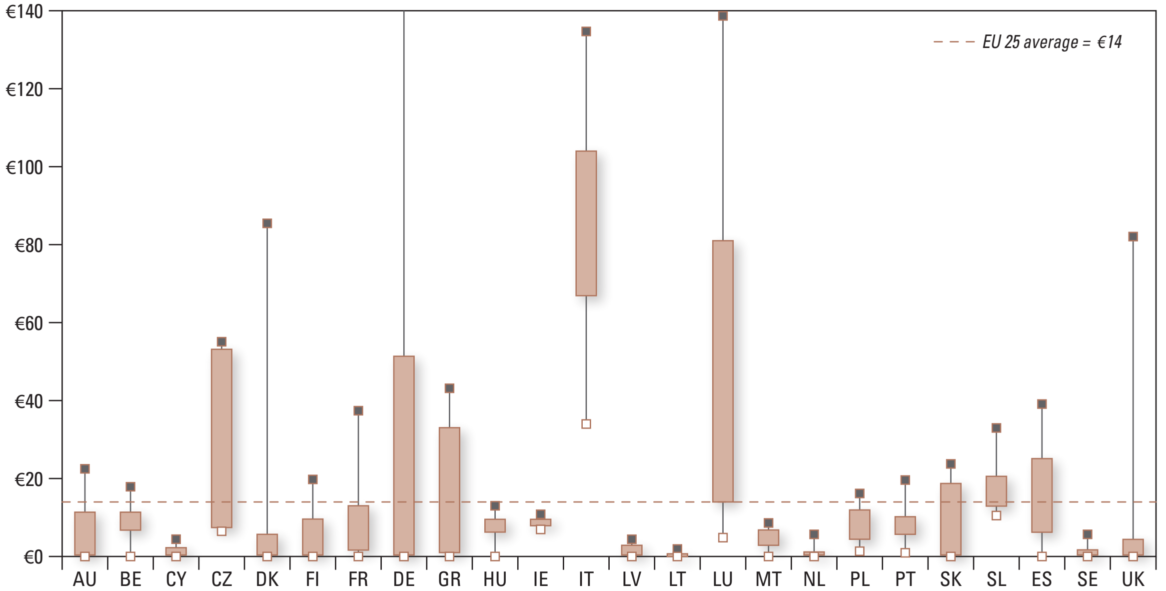
We suggest three areas to address:

Pricing advisory services. During the financial crisis, banks have been criticized for emphasizing product sales over advisory services in order to reach their sales targets. A pricing model that offers consultation as an independent, specifically priced service could reduce criticism while improving profitability. According to an A.T. Kearney survey, 79 percent of respondents say they would agree to a combination of consultation and transaction fees *(see figure 6)*.

This could help solve another dilemma for banks, in which individual consultation to unprofitable customers often does not pay off. New

Figure 5

Income on account management fees' variability (EU 25); highest and lowest annual revenues per customer

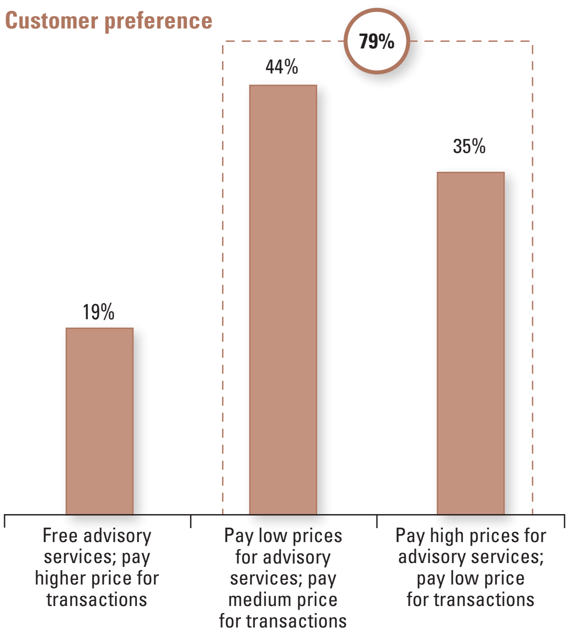


Notes: Truncation at €140. Bars show degree of heterogeneity of prices for 50 percent of sample; 25th and 75th percentiles are shown.

Source: Commission of the European Communities, 2005-2006

Figure 6

What customers will pay for advisory services and transactions



Source: A.T. Kearney survey of 1,000 respondents

pricing structures could enable banks to allocate necessary expenditures fairly and prevent focusing primarily on capturing revenues from high-volume deals. It could also resolve the issue of taking advantage of advisory services in a branch while making transactions online. Such a pricing model requires establishing advisory services as a distinct "brand." Three steps are necessary to make this happen:

Define services. Outline the content and scope of the services and make sure advisers have the relevant qualifications. Customers need a clear concept and the perception of additional value.

Allocate costs. The costs of the service must make sense to the customer and be distinguishable from other services. Develop individual concepts that meet customer needs.

Identify willingness to pay. Use analyses and pragmatic tests to determine how much a customer is willing to pay.

Pricing additional banking services. There is price potential in areas where services are delivered too cheaply (or, obviously, for free). A cost

Figure 7

Price comparison of select banking services in Germany

Service	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F
Declaration of profits for tax purposes	€8.00	€12.52	€5.47	€8.25	€20.00	€25.00
			213% price difference			
Balance confirmation	€4.09	€5.00	€5.11	€0.00	€11.00	€17.85
			336% price difference			
Investigation	€8.00	€10.00	€10.00	€10.00	€16.00	€25.00
			213% price difference			

Sources: Company websites of six European banks; A.T. Kearney analysis comparison of services at six banks indicates the different ways banks charge for the same services *(see figure 7)*. Banks could also take advantage of innovative pricing models such as pay-what-you-want *(see sidebar: PWYW: An Innovative Marketing Tool)*.

Stopping price erosion. Another substantial pricing lever is to eliminate the erosion caused by discounts and gratuitous services. Bank advisers estimate that more than half of their clients try to negotiate price, including reduction of issue surcharges, the granting new-customer premiums to existing customers, and waivers of valuation costs for construction financing. The overall effect of price erosion is significant.

Of course, some price reductions may be necessary for attracting and maintaining high-profit customers, but it is worth the effort to focus management attention on making those decisions transparently.

4. Manage Complexity

Capitalizing on past growth opportunities and bringing in new business required time-to-market agility and new products specially tailored to client demands. Of course, these personalized products can also bring ballooning costs—as much as 60 percent for some units. But the result was a huge variety of options and overwhelming complexity that is evident in nearly every aspect of banking today. There are convoluted organizational and governance models; overflowing product portfolios; redundant processes featuring an array of often-unused variations and confusing exceptions; labor-intensive manual processes and exceptions; and ad-hoc "fixes" and "workarounds" to core systems. Complexity is the root cause of internal inefficiencies and appears on several levels:

Portfolio. Complexity reduction requires rethinking the entire product portfolio and assessing it against each product's value-added component. Typically, 20 percent of a product portfolio generates as much as 80 percent of its profitability. Products with limited usage, below-average returns or declining volumes are obvious candidates for repositioning or elimination. Reducing the number of products makes the

PWYW: An Innovative Marketing Tool

Pay what you want (PWYW) is an innovative marketing tool that companies from hotels to car-repair shops are using to attract consumer attention. U.S.-based Procter & Gamble is a PWYW pioneer. Last year, in two markets in Germany's Rhine-Main region, P&G tested the method with its Gillette Fusion razor. While customers in one market were offered free samples of razors, customers in another were asked to pay whatever amount they wanted. In that market, 340 consumers paid an average €1.42, not much compared to the suggested retail price of €11.99. But in terms of generating product awareness and word-of-mouth advertising, the program achieved much higher value.

Why are people willing to pay a certain amount when they are asked to determine the price? According to a Frankfurt University study, fear of losing face is every bit the motivator that fairness and altruism are, particularly for small, family-run companies. For example, a Frankfurt restaurant employed PWYW, and its diners paid an average of €6.44 per dish, compared with the usual price of €7.99. The restaurant benefited from this campaign in several ways, not the least of which was that it now attracts more customers and enjoys higher revenues.

offering more transparent for the client and easier for the adviser to sell.

Features and design. Banks should look closely at how clients perceive their experience in a product sale. Minimizing document requirements, redesigning forms that ask for similar or identical information, and cutting the number of times a signature is required are a few ways to make purchasing easier. Such modifications require IT support and internal process changes, sizable investments in time and money that call for preliminary analysis to determine whether they are fundamental for survival.

Personalization and customization. Product variations and custom options abound in almost every category: from simple (customized credit cards with options for size, photo, rewards and insurance plans) to complex (mortgages or home-equity loans with options for fixed-interest periods, grace periods, down payments or collateral). However, it's rarely the number of variations that is the problem; more often, processes and systems are not adequately standardized and automated. Quick fixes will only work for a short time, and usually just add exponential complexity to processing. To avoid mistakes, reworks and complaints along the entire value chain, fundamental change must be undertaken.

Remember: While customized offerings are vital, they do not automatically lead to higher revenues or happier clients. Even if you are offering too few options, we have found that the clients you lose are generally those that are best characterized as hard to please. Conversely, too many variations will confuse clients (especially if they involve complex offerings) and decrease adviser productivity.

5. Improve Process Efficiency

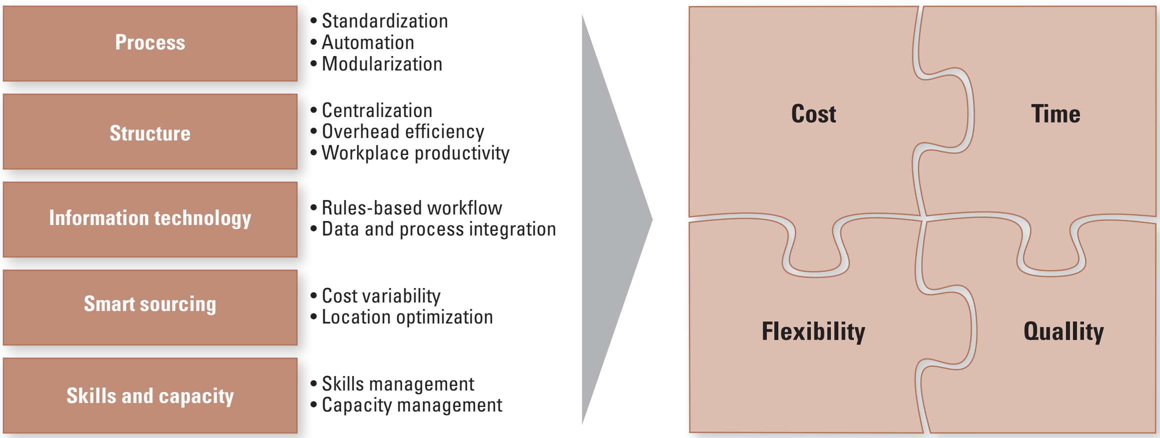
Banks' processing requirements are a direct result of their service models. Some banks focus extensively on automating processes, standardizing products and integrating processes via the Internet. Others emphasize a branch-based process and offer customers as much service as possible.

Even if you are offering too few options, we have found that the clients you lose are generally those that are best characterized as hard to please.

Among the many ways to increase efficiency, standardizing processes and centralizing the service structure will help meet future challenges in retail banking. Figure 8 on page 14 illustrates a typical operations framework, which can involve several areas, including process, structure, IT, sourcing, and skills and capacity. When combined, the company and the customer get the best overall performance in terms of cost, time, flexibility and quality.

Automation and standardization. Although there have been huge advances in automation and standardization in recent years, there is still room for improvement in data entry, processing and decision-making. Banks enthusiastically promote

Figure 8
Operations framework



Source: A.T. Kearney analysis

Internet usage for customer-account administration and increasingly use optical character recognition (OCR) software to classify and reroute tasks. However, many tasks are still performed manually, such as data entry.

Standardizing is the first step to improving efficiency. Leading firms integrate process design with product innovation to configure products based on standard components. This helps reduce processing costs and creates a more dynamic product portfolio.

For example, a new card offered by a Turkish bank allows clients to customize their cards across many categories, including interest rates, rewards programs, card fees and design. Although the card offers a staggering 9,000 possible combinations, the IT platform is modularized to ensure a smooth, stable process. For clients who find the card-customization options a tad overwhelming, the bank offers four standard packages.

Centralized service-center structure. While some banks conduct work other than sales and building customer relationships inside branches, others have centralized these tasks and sent them to lower-cost locations outside city centers. The biggest benefit of centralization stems from dedicated teams of relatively unskilled workers that can take care of specialized processes. Although electronic document-management and workflow systems allow for continuous collaboration across locations, a site with 250 to 300 workers can realize the maximum efficiency and profitability through infrastructure and staffing synergies.

Poised for the Future

Today marks a turning point for retail banks. The revenue declines coupled with growing default risks and rising capital costs will strain operations for years to come, and minor improvements won't be enough to combat anticipated performance declines. A differentiated and cost-effective approach is necessary to embrace the full client base. Banks must reconsider their value propositions, geographic footprint, product focus and operating models when it comes to their portfolios, and renew their dedication to client approach, service, process efficiency and automation, and pricing mechanisms.

The five-pronged action plan outlined in this paper is not a "silver bullet." Not every action will have the same effect for every bank, depending on its processes and systems, market sophistication and the size of the performance gap it has to bridge. Simply put, strong leadership will point the way forward, taking into consideration the particular needs and situations of the bank.

Navigating this environment depends as much on regaining clients' trust as it does on taking top- and bottom-line measures. Every client interaction — from marketing to sales to the handling of complaints — is an opportunity to build this trust. Banks that understand this and respond accordingly will lead the retail-banking world out of this crisis.

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