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The untapped win-win in self-service banking

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Bank executives are wondering where the pay-off is.
They've invested a lot in self-service technologies. But the cost savings and customer enthusiasm that self-service solutions were supposed to deliver haven't materialized. Unfortunately, for many banks, those benefits never will.

A small group of banking leaders, however, is enjoying a different experience. Like their peers, they are investing in self-service technologies. Unlike their peers, they are achieving their cost-savings goals and strengthening relationships with customers. The difference? Their strategies are built around customer value. And their tactics are focused on customer adoption.

The self-service opportunity is huge.

Bank of America's 2014 financial reports had many industry watchers doing a double-take. In the 4th quarter, 12 percent of its deposits were made via mobile devices, a substantial increase over the 10 percent of mobile deposits reported in the previous quarter.[1] This percentage is noteworthy. While banks typically don't publish this metric, most would be ecstatic to have mobile deposits make up just 5 percent of their deposit totals.

Bank of America's results are an indicator that self-service has transformative potential. Shifting to self-service makes complex processes simpler. It frees bank personnel from managing so many low-value activities. And it provides customers with greater control of their banking transactions. The value potential associated with these benefits is enormous.

Cost savings.

In the United States, banks employ approximately 514,000 tellers and pay them an average yearly wage of $25,760.[2] That translates into an estimated annual industry spend of more than $13 billion. Additionally, there's the high cost associated with building and maintaining branches, which allocate up to 50 percent of their space to teller-related activities.[3] The exorbitant branch-related expense would be justified if the value of the products and services delivered via branches and tellers offset their cost. But they don't. It is up to 95 percent cheaper to process deposits digitally than through a teller. And the cost of online and mobile payments is 65 percent lower than payment via physical checks.[4]

The bottom line is that self-service can free up valuable labor and branch space, which can have a significant impact on the bank's balance sheet. If each branch could save just $25,000—or the average annual wage of one branch teller—a typical bank could achieve a 1 percent improvement in its Efficiency Ratio. The savings could be even greater if shifting transactions to self-service enabled the bank to reduce its average branch size and close low-volume sites. Those savings would allow banks to focus on investments that create value, like designing more profitable offerings, restructuring physical networks into smaller sites that are more convenient, or enhancing customer relationships.

Positive customer feelings.

Customers now expect to be able to evaluate products and services, shop, check in for flights, or pay their utility bills whenever they want, from wherever they are. With their self-service solutions, banks can now offer customers similar 24/7 mobile and online customer experiences. Banks with high numbers of customers engaged via self-service are often among those banks with the highest rates of loyalty and customer satisfaction. And satisfied customers are less likely to take their banking business elsewhere.

Customer loyalty is critical—and harder to come by—in the digital age, since it is now so easy for customers to switch providers if they are dissatisfied in any way. Accenture's 2014 Global Consumer Pulse Research found that for 32 and 26 percent of banking customers, respectively, the primary drivers of customer satisfaction are "ease of doing business" and digital experiences. Further, 45 percent of banking customers either switched banking providers completely or turned to new providers for additional products or services in 2014.[5] Digital-only banks and fintech companies, with their focus on digital interactions, pose a particular threat.

Goodbye, self-service. Hello, digital do-it-yourself (DIY).

Despite their significant technology investments, many banks have failed to seize the full self-service potential. For example, only 52 percent of customers with smartphones have used mobile banking. And only 27 percent have tried mobile deposit.[6] That's a lot of untapped digital potential. Accenture estimates that the top 25 US banks are, together, leaving over $2 billion in possible cost savings on the table—primarily because their going-in strategy is fundamentally flawed. Much of self-service can be perceived as offloading work to customers. As such, banks are often seen as "forcing" their customers to comply with self-service solutions.

Banks that deliver successful self-service solutions have a different starting point. They create an experience that customers genuinely want, find valuable and are excited about. They then deliver that experience in a way that customers control. This mindset shift—from "self-service" to "digital do-it-yourself"—can make a huge difference in customers' adoption rates. Importantly, the most successful banking self-service strategies encourage customers to opt in; they don't simply foist self-service upon their customers, with the expectation that they will comply. In other words, self-service should not be something banks do TO their customers. It should be a channel they develop WITH their customers. This means designing self-service solutions that are simple to use, address the needs of customers (not banks), and allow customers to control their experience. But solution design will only get banks so far. Equally important is investment in—and emphasis on—solution adoption.

A strategy that includes well-conceived adoption tactics, such as customer trials to determine the adoption initiatives most likely to work, sounds logical and obvious. Yet, the history of self-service is filled with examples of financial service providers failing to capture customers' interest. One bank, for example, years ago instituted a $3 fee for customers choosing to interact with a teller. The public's backlash against what was seen as a "penalty" for not completing the transaction via the bank's ATM or telephone banking systems was loud and harsh. In contrast, other banks started offering lower-cost accounts to customers who agreed to use non-teller channels. They recognize that when it comes to shaping positive customer experiences, carrots are more likely than sticks to generate long-term customer loyalty. But others are still not convinced. For example, some banks are experimenting with charging a fee for mobile remote deposit capture, and others have talked about possible pricing approaches that include subscription services or fees for expedited availability of deposited funds. Banks will need to determine the pricing approach that works best with their customers, economics and competitive environment. In making these pricing decisions, banks will need to ensure that they are not inadvertently sabotaging self-service adoption.

Stop being traditional banks.

To transition their labor-intensive transactions to self-service channels, banks will benefit from focusing on delivering solutions their customers will notice and value. Three steps to drive migration to self-service include:

Understand customers' needs and actual behaviors.

By mining and analyzing the extensive customer data now at their disposal, banks can identify which customer segments use self-service, for what transactions, in which locations, and why. Importantly, they can also uncover those customers who should be using self-service, but aren't. Armed with this intelligence, banks can target their self-service programs to the right customers, at the right time/location, and at the right cost.

Focus on developing programs that encourage self-service adoption.

Accenture experience shows habits can be changed quickly; just two or three successful interactions can make customers regular users of self-service. Recommended practices, along with test and learn approaches, can help banks facilitate fast uptake by zeroing in on techniques that resonate with customers. Other elements include piloting various adoption programs to different segments, making the self-service value proposition clear, addressing potential obstacles, using employees and greeters to guide customers on their initial self-service forays, and potentially offering monetary incentives to customers.

Design the best products—and the best customer experiences.

With a clear understanding of their customers' behavior and the tactics that can drive self-service migration, banks will be in a better position to design self-service banking products that provide highly satisfying customer experiences. As with many digital business models, DIY will drive inherently lower variable costs and reduce the amount banks spend on low value added activities. Therefore, it enables banks to redesign and reprice their core retail banking products to strategically defend their turf against disruption by low-cost digital banks and fintech companies.

It's time to join the DIY revolution.

A few retail banks have successfully deployed self-service programs that simultaneously cut costs and improve customer experiences. Others can learn from them. Start with the customer. Develop and refine a clear migration strategy. And introduce simple solutions that customers want and can control. It's a win-win.

References

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[2] US Department of Labor, Bureau of Labor Statistics, "Occupational Employment and Wages, May 2014—Tellers." Retrieved July 16, 2015 from http://www.bls.gov/oes/current/oes433071.htm#nat

[3] Note: Accenture research has shown that the 25 largest US retail banks spend more than $50 billion each year maintaining more than 43,000 branches nationwide. And if they want to open a new branch, they can expect to pay another $2 million.

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[6] Accenture analysis; "Consumers and Mobile Financial Services 2015," Federal Reserve Board, March 2015. Retrieved August 4, 2015 from http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201503.pdf

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