It's no secret that revenue growth is one of today's biggest challenges for the banking industry. Financial services CEOs ranked growth as their number one priority according to The Conference Board CEO Challenge 2011 survey. As low interest rates and new regulations strangle traditional sources of risk-based and fee income, many once-attractive customer relationships are generating less revenue, causing some to become unprofitable.

Many bank executives are finding that the old tried-and-true strategies for organic market share and revenue growth are not sufficient anymore. Competing based on pricing, convenience, and service is still fundamental, but more is required. The financial crisis created a trio of retail banking giants with approximately 30 percent combined market share and more than 18,300 branch locations – but even with their vast scale; they are also struggling to grow organically.

On the product side, retail deposits have significantly diminished attractiveness in today's low interest rate environment. Even when banks succeed in attracting new deposit relationships, there are few profitable ways to reinvest those assets in today's loan environment. Mortgage lending has dropped to the lowest levels in a decade, and new fee and rate constraints on overdrafts and credit cards, along with consumer debt reduction, have silenced these traditional revenue growth engines. Increased regulation is already slowing another key revenue stream - debit card transaction fees - which could further strip away potential profits and make a generation of free checking accounts unprofitable.

Retail banks need new growth engines. They, along with other financial institutions, are more finely segmenting existing target markets and fine-tuning products to laser in on the remaining attractive opportunities. In addition, some are rising to the challenge by executing strategies and developing capabilities that allow them to effectively compete in still-promising profit sources – wealth management, retirement, and insurance, for example – where banks have lost ground or have historically failed to establish significant revenue streams.
This article describes a three-step growth strategy: identifying underexploited revenue and profit sources with growth potential, leveraging analytics to attract and focus on the most profitable customer relationships, and creating agile operations with the capabilities required to serve all customers effectively.

1. Identify and pursue underexploited revenue and profit sources

Banks grow as their customers grow. While this core truth hasn’t changed, how customers grow is changing, requiring banks to change with them. In the decade preceding the financial crisis, the profitability of many retail banks was linked to the baby boom generation as they spent their current income, embraced the convenience of debit and credit cards, and acquired mortgages and home equity lines to support their growing families and upwardly mobile lifestyles.

As boomers age and adjust to the lingering realities of the financial crisis, their financial behaviors are shifting from an emphasis on short-term consumption to protecting their long-term security through saving, insurance, investment, and retirement income products. Generations X and Y are filling some of the spending gaps, as are growing multicultural population segments, but boomers are likely to continue to be the most attractive retail profit source until 2020, due to the vast number of boomers and their accumulated assets as many approach retirement.

The new economic and regulatory structure, along with shifting demographics, has caused some retail banks to retool their profit model. Before the crisis, deposit gathering and consumer lending, especially cards and mortgages, dominated retail bank revenue, profit, and growth opportunities. Leading banks are analyzing current trends in these areas and others to identify new revenue and profit segments where future growth is now likely to be more robust.

Asset management, annuities, and defined contribution management are examples of significant profit sources that have both recovered more quickly than lending and are likely to be further bolstered by current trends. (See Figure 1). Several leading banks are already responding to these attractive growth trends – and their potential for fee-based revenues – for example, by acquiring securities firms and/or organically building their existing investment activities. Each of the top three banks are establishing or refining their mass affluent line of business and expanding their pension or insurance businesses.

Retail Financial Services

![Retail Financial Services Diagram](image-url)
Evaluating the bank’s portfolio is not limited to customer segments and products. Banks should also evaluate their geographic portfolios, within the U.S. and globally, to uncover future opportunities. Several leading U.S. banks are planning and taking actions to increase their non-U.S. retail footprints, and others have taken recent steps to reshape their U.S. geographic profile. Deloitte’s recent survey, *The next decade of global wealth among millionaire households*, indicates that wealth among millionaire households could more than double over the next decade in 25 major economies (see Figure 2), growing from an estimated $92 trillion this year to $202 trillion in 2020. China and Brazil lead in country growth rates, while within the U.S., New York and Florida are predicted to show the most growth in millionaire household wealth.

However, profit strategies that work for one bank may not work for another. Forward-thinking bankers should decide which profit sources are likely to hold the most long-term potential for their bank’s specific capabilities, customer base, and geographic areas. Based on profit pool, return, and growth analysis, bankers can create a fact base for their decisions. From their portfolio profile, it can then be determined how to reallocate capital, human resources, and technology investments to the businesses that are most likely to provide significant long-term profit potential.

The leaders of this new financial services era are likely to include those that most effectively monitor key demographic, economic, and regulatory trends; adjust their corporate business portfolio accordingly; and execute nimble strategies that allow them to pursue evolving opportunities.


Our forecasts suggest that total wealth among millionaire households will increase from $92 trillion in 2011 to $202 trillion by 2020, a growth of 119%. In emerging markets, the growth over the next decade is potentially quite impressive (260%), significantly outpacing the growth (107%) in developed markets.

**Figure 2**

*Developed markets: Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, United States, and United Kingdom*

*Emerging markets: Brazil, China, India, Malaysia, Mexico, Poland, Russia, South Korea, Taiwan, and Turkey*

*Source: Deloitte analysis and Oxford Economics*
2. Leverage analytics to identify and engage targeted customers

Delivering on the potential of these revenue and profit sources requires that banks offer products, services, and customer experiences that set them apart from the competition. Creating differentiated financial service alternatives that appeal to even one high-value customer segment isn’t easy; however, for long-term growth, retail banks should develop the capability to simultaneously deliver differentiated services for multiple customer segments. This has been a conundrum for banks that are tied to traditional mass market branches as their primary delivery channel.

Leading banks are increasingly combining analytics and multichannel touch points to create this competitive advantage. They are building proficiency in leveraging their repository of customer data – demographic profiles, spending and saving behaviors, assets and liabilities, credit scores, and more – to identify high-potential, underserved customer segments and to gain insights into new ways they can help these customers reach their financial goals. New scoring models draw on many aspects of a customer’s lifestyle, engagement, and buying behaviors to predict attractiveness over time, as well as the products and services they are likely to need as the relationship progresses. Today’s analytic models allow bankers to make more informed “who” and “where” decisions, combined with identifying “what” is the right offer/service and sequence of presentation, as well as “how” to most effectively execute channel, timing, even retention moves. This can improve the effectiveness of “push” offers, retention actions, and default management. These models have allowed discrete business lines - especially card businesses - to develop highly sophisticated customer strategies.

Analytics are the engine that can better position banks to offer the right services, at the right time, to the right customer – in ways that build loyalty and profitability. Since analytical models are continuously improved as new results are incorporated, the banks that are early adopters and systematic in test-and-learn processes can gain a head start in refining targeting models and product configurations that can create competitive advantage.

So far, few U.S. banks have been analytically driven and aggressive in managing overall retail household relationships. Product-driven silos have been the norm, with organizational capabilities and legacy systems similarly fragmented. This culture has inhibited the ability of banks to pursue an integrated customer segment view and has significantly raised the cost and implementation risk of fledgling initiatives.

The requirements for consolidated risk and compliance reporting, however, are creating new enterprise architectures and data repositories, which reduces this impediment. Meanwhile, the value of understanding household risk, in addition to product risk, has been made evident by today’s new economic environment and credit default levels. Both the economic incentives and shared infrastructure for an integrated customer view are closer at hand. Proliferating channels with digital interaction modes are also creating a vast data resource for understanding customer behavior. The result is improved customer profiles, profitability indicators, and “next product to buy” information. This information is beginning to make its way into the hands of frontline staff. As it does, the banks’ ability to respond to multiple segments, and individual customer circumstances, can be significantly enhanced.

A new generation of broad-based retail services analytic competitors makes up a group of emerging leaders in integrated go-to-market approaches. They are poised to play a key role in shaping customer strategies and growth for the “new normal.” As one example, a leading U.S. financial service organization that has invested in analytics over the last five years has seen its take-up rate on cross-sell offers increase from 2 percent to 12 percent. This aggressive analytics competitor has worked to finely segment its customer base and track customer activity and behavior in real time across channels. For example, if a customer declines an offer on the Web, the suggested offer is revised by the time the customer switches to the phone minutes later to continue business in an alternate channel.

Product innovation

For many banks, new product development was among the early cost-cutting casualties. Banks that retained these capabilities are positioned to develop innovative new ways to attract and retain profitable customer segments based on emerging customer needs.

One leading bank identified young professionals ages 26–32 as a potential revenue growth segment. Their research revealed that these customers want to manage...
their spending and savings in real time. This bank created an integrated online financial management package built around a personal financial calendar, rather than a traditional checkbook. Product mobility enhancements helped attract additional profitable new customer segments, including college students, their parents, and new technology-savvy customers.

Tomorrow’s leaders will continue to develop innovative financial solutions. Depending on their growth strategy, some banks are targeting these tech-savvy customers by creating payment systems that will allow smartphones and other mobile devices to become their new payment tool. Even now, some customers in low-income regions of the world use their phone as their only “bank.” For them, phones are a transaction device, customer service tool, and electronic statement wrapped in one low-cost package. Learning from these customers’ experiences can change the shape of banking – redefining what it means to be personal and local in retail banking.

Others are targeting aging boomers by developing products that help retirees improve the tax efficiency of making mandatory withdrawals from their retirement accounts by developing new integrated accounts that create a monthly “paycheck.” Still others are devising ways for retired customers to make regular withdrawals while maintaining attractive returns on the remaining funds. Recent innovation in personal financial management tools includes benchmarks tailored to a customer’s individual investment portfolio, their profession, or customer segment.

We expect to see additional disruptive innovations in the financial service industry that leverage customer insight, as well as, Internet, social media, and mobile devices to create information-rich products and services. PayPal, for example, is one of the most significant payments system innovations to come out of the last decade. Like PayPal, other nonbank competitors will have the potential to disintermediate traditional financial competitors if the industry is not continuously monitoring new trends and investing creatively to remake its portfolio on an ongoing basis.

**Offerings that are personal – and local**

Leading banks will use their customer insights to create banking experiences that are highly personalized. From private banking to mass market, banks have found that having a conversation with the individual customer, understanding their needs, and developing relevant solutions increases relationship depth and cross-sell opportunities. Such face-to-face interaction has decreased over time as the cost for providing it has become prohibitive, except for significant products like a new mortgage or asset management services for affluent customers.

Today, however, some financial firms are recreating personal interactions by providing customers with self-service online tools, structured goal discussions for platform bankers, as well as direct phone and videoconference communications with virtual relationship managers or subject-matter specialists.

Banks are also creating preference profiles that tailor interactions with customers according to their specific content, channel, and frequency preferences. For example, some banks are using mobile technology to connect with consumers at the exact moment when they need to make a financial decision, such as offering to transfer money just in time to avoid overdrawing an account. Others have focused on resolving client issues through applying analytics to customer relationship histories, allowing them to more accurately predict the reason why a customer is calling. This knowledge can inform customer service representatives prior to connecting with the customer, improving their “one call problem resolution” performance, which can save time and build loyalty.

One leading bank has developed a “pull” strategy for attracting customers that centers on a networking Web site for people who value budgeting, saving, and living within their means. Site visitors find smart-shopping articles, retirement savings calculators, and debt-reduction tips to help them reach their financial goals, as well as discussion groups where customer members can share insights and advice. This bank is gathering additional information from these customers’ Web site activities, allowing the bank to initiate more informed and relevant customer conversations and future product placements.
Many individuals now spend much of their time in a virtual web of interactive social media communication on multiple devices. For some, their banker may soon join their online social network and become the new age personal banker.

**Branded customer experiences**

These collective experiences shape customers’ impressions of individual banks and their competitors, creating perceptions of banks that may range from a distinct, engaging personality to an undifferentiated utility. Historically, only a few financial institutions have built a strong marketing brand, the kind created by catchy tag lines and/or consistent presentation of logo, color, ad language, and spokesperson.

Branded customer experiences today are moving much more deeply into the individual customer sales and service experience details.

For example, some banks train their employees to offer consistent touch-point experiences at greetings/closings – such as “Good morning, welcome to ___ Bank” and “Is there something else I can assist you with today?” to every customer during every interaction. For others, every sales conversation may be preceded by a recheck of what the bank knows about the individual customer’s profile and her specific needs. These examples should be supported by an integrated view of the customer at every touch-point, which allows each conversation to begin with the employee having access to the customer’s activity history/content across channels. This allows individually customized, relevant messages to become your brand expectation.

Human interaction is the defining element of experience for most customers. Financial institutions have sought to further shape their brand by defining the personality traits, knowledge, and capabilities of brand representatives who interact with the customer. Qualities, such as persistency, entrepreneurialism, resilience, sense of humor, and more, emerge from testing successful representatives and are used to define the type of talent required. These qualities are built into screening guides for recruiting new representatives and are incorporated into talent development processes from onboarding to performance management.

Collective experiences create the brand personality, whether simple and efficient, or warm and engaging. Additional new frontiers of competitive advantage now lie in providing a consistent screen layout across online, ATM, and PDA devices. The experience has more impact when customers perceive that the bank has their best interests in mind and that employees are given the flexibility to do “what’s right” for the customer in every interaction.

When executed with appropriate sensitivity to customer segment preferences/economics and leveraged with technology, this strategy may actually lower total service costs in many cases while improving customer service perception and satisfaction. It is very likely to increase relationship depth, loyalty, and persistency, which are key drivers of revenue and profit growth.

**Accelerating revenue growth**

Bankers can expect to see more of all three strategies executed across the industry by participants seeking revenue growth:

- Pursuit of revenue and profit growth by allocation of resources to businesses supported by profit pool and market trends
- Aggressive use of analytic tools to target high-value customers and engage them with attractive solutions
- Execution of agile operating models, including innovative products, offerings that are personally relevant, and branded customer experiences.

Financial institutions that follow these strategies are already renewing their revenue and driving profit growth.
Sources:

1 The Conference Board CEO Challenge 2011 survey

2 The next decade in global wealth among millionaire households, Deloitte, May 2011

3 New Rules: The Crisis Has Changed Consumer Behavior, David Calhoun Chairman and CEO, The Nielsen Company

4 The United States in 2020 A Very Different Place, Nielsen, 2009


Contacts:

For additional information, please contact:

Don McNees
Principal
Deloitte Consulting LLP
Dmcnees@deloitte.com

Brian Johnston
Banking Consulting National Leader, Principal
Deloitte Consulting LLP
Bjohnston@deloitte.com

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2011 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited