

Online Banking: Expanding the Channel with Convenience and Security

Contrary to many predictions, the online channel didn't lower costs, nor slow down the ongoing expansion of branch networks. It also doesn't represent a good free standing economics, but must be viewed as just another channel alongside branches, call centers, ATMs and telephone banking.

From our experience consulting with the largest financial institutions, coupled with a recent online banking benchmarking survey leveraging detailed internal data from twenty of the top thirty banks along with deep-dive analysis into their strategies and operations, we can classify retail customers into three general segments: 1) those that are offline; 2) active online bankers that do not use billpay but log on monthly and 3) monthly active billpay users. This third category represents the ultimate goal for financial institutions due to the fact that they are twice as profitable as those offline customers.

We worked hard to assess whether this was casual or simple correlated – after running event studies, we concluded there is something real going on here. Billpay activation precedes a 40% lift in household profitability in the first year alone. Usage of this product changes the relationship between the financial institution and these customers – they move deposits, take out loans, have richer pricing and have much better retention than any measurable control group.

The key facts are that activating bill pay fundamentally changes customer behavior, and various institutions have widely ranging success rates at converting online bankers to active bill payers. Our research shows a 10x gap between active bill payers at these large institutions from first to fourth quartile penetration.



Carl Rutstein
Partner

In fact, the one clear difference between top and bottom quartile performance was if the financial institution “got religion” around the Internet – it is a channel everyone understands, pushes, has compensation tied to performance and is systematically measured. To make a clear and final point on this topic – the vast majority of financial institutions can dramatically increase their customers' profitability by increasing their billpay penetration to levels that their top performing competitors have been able to achieve.

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Carl Rutstein is a partner in the Boston Consulting Group's Chicago office. He leads Boston Consulting Group's North American Payment Practice (checks, cards, electronic payments) and recently co-wrote our recent "Striving for Organic Growth in Retail Banking" report. Rutstein works closely with large financial services firms in the United States on various engagements including overall strategy, growth, Internet, cross-sell and payments related topics. BCG aims to help the world's best organizations make decisive improvements in their direction and performance by sparking breakthrough ideas for clients, the business world, and society at large. Over the past four decades, Boston Consulting Group's ideas such as the experience curve, the growth-share matrix, time-based competition, and the new economics of information have become fundamental to both the science of business management and the practice of global strategic consulting.

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