WHITE PAPER

Building Next-Gen Primary Banking Relationships

The Path to a sub-40–50% CIR

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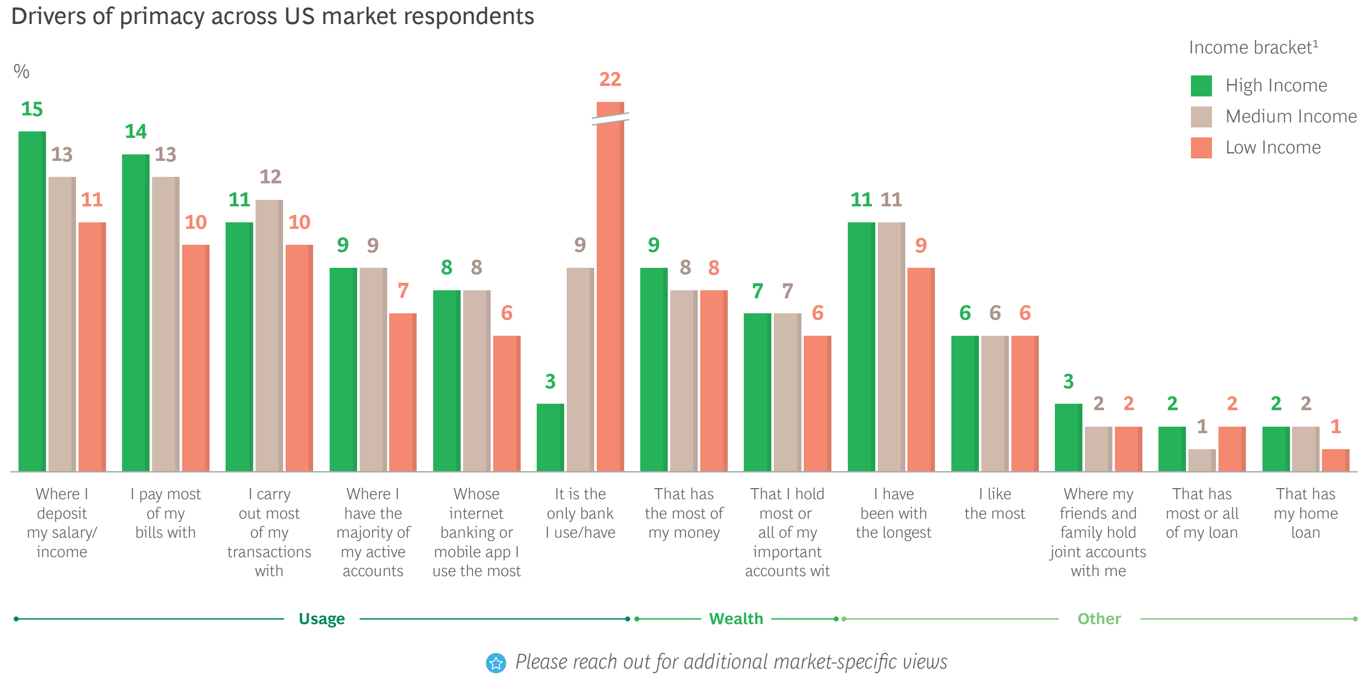
For decades, bankers have focused on leveraging extensive branch networks to attract "primary" banking relationships (PBR) with the belief that they would generate more value for the bank by owning more products, having higher balances, and being less rate sensitive and stickier. But the game has now changed. Given the increasing movement of money electronically and attractive digitally led competitors, banks need to leverage digital as the principal channel (in close collaboration and support with physical and virtual channels) to drive PBRs and rethink how to define primacy.

Banks that implement a holistic strategy focused on acquiring, activating, deepening, and retaining PBRs with a "mobile first" mindset and omnichannel operating model will be better positioned to drive net interest margin (NIM) and fee revenue while reducing cost to serve. Successful banks will be positioned to achieve a 40–50% or lower cost-to-income ratio (CIR).

Defining Primacy

Across the banking industry, there is no common definition of what constitutes a PBR. Typical definitions include those in which the customer has a direct deposit, makes a certain number of debits/credits per month (e.g., 5–15), or maintains an average daily balance above a certain threshold (e.g., $1,000). Often, a combination of these factors is considered. Consumers, too, articulate a broad set of considerations when defining their primary bank, ranging from where they deposit their paycheck to where they have most of their wealth. (See Exhibit 1).

Exhibit 1 - Drivers of primary banking relationships (US example)



Source: BCG REBEX Retail Banking Survey 2023 (USA respondents).

[1] Low: Below $35,000, Middle: $35,000 to $99,000, High: $100,000 and above.

How We Define Primacy

While common industry definitions have merit, we define PBRs as those where banks possess the majority (e.g., more than 60–80%) of a customer's "money flows", i.e., all payment transactions. Practically speaking, this means primary customers are those who make more than 10–15 payment transactions per month (across debit, credit, P2P, check, etc.) while also having at least one recurring transaction (direct deposit, bill pay, standing payment authority on debit/credit). These customers tend to log in more than 30 times per month, generate more than three times higher relationship balance[1] levels compared with non-primary customers, and record much lower levels of hard attrition[2] (less than 2–3%).

Why Our Definition of Primacy

Our definition universally spans customer segments and weeds out customers who generate balances/revenues but do not have meaningful relationships with the bank (e.g., monoline lending, inactive/dormant accounts with balances). It also includes young (teens, students) and mass customers with low balances who treat the bank as their primary payments provider and could be developed further.

When a bank holds the majority of a customer's money flows, this typically results in 400–500 post-authenticated touchpoints per year. This creates a platform to initiate hundreds of conversations with zero (or minimal) incremental direct marketing/cross-selling cost. Money flows/payments are also a rich data source for better understanding and underwriting customers: including full income, spending versus saving patterns, brand preferences, and relationships with other financial institutions. A "thick" payment file on a customer can be used to issue pre-approved credit, set up recurring payments with ease, and/or offer relevant and attractively priced third party products (e.g., insurance, merchant funded rewards). This further supports customer activation, achieving PBR and deepening.

Traditional Versus Digital PBR Considerations

Digital has dramatically changed how banks can achieve and maintain PBRs. Banks need to change their primacy paradigm to focus on strong stand-alone digital capabilities and hybrid, cross-channel orchestration where assisted channels are used to enhance digital. This paradigm, however, presents new challenges:

- **Acquisition and Account Opening:** Banks will need to increase digital marketing and develop new skills to maximize high quality/qualified digital traffic. Banks need to ensure they do not pay for low quality traffic that never activates. Also, customers expect a quicker, more seamless account opening process. While the account may be opened more quickly, banks will need to find new ways to build connection with their customers, since there is no longer a face-to-face interaction and physical experience with the institution.

- **Activation:** With digital, it becomes more challenging for banks to get customers to develop the "habit of using the bank", given the lower level of initial engagement/commitment required to open an account. Many banks note that the quality of their digitally originated accounts is not as good as those originated in branches. Typically, only 30–40% of digitally acquired customers activate their accounts, i.e., reach an average of 3–4 transactions/month as measured at 90 and 180 days.

1. Relationship balances reflective of deposits (checking, savings), loans (mortgage, home equity line, unsecured personal, credit card), and investments.
2. Hard attrition reflective of customer account closure.

- **Deepening:** Our REBEX 2023 survey shows noticeable fragmentation in banking relationships across the globe: customers typically hold two products with their main bank and three to four with other providers. With digital, banks can have hundreds of conversation opportunities per year during daily, post-authentication logins. More than 70% of these conversations are likely to be non-commercial, instead focusing on developing trust, a deeper understanding of a customer's profile and needs, feature discovery, moments of truth, financial well-being, and activation. Banks need to ensure these communications are personalized to a customer's context and timely (80–90% retargeted/re-trained on weekly/biweekly rhythm, and 10–20% in near/real-time). Banks need to integrate these communications with human-to-human interactions via chat or video, and RMs' next-best-action/next-best-offer. Also, banks must offer customers new, digitally optimized products via a few clicks, while leveraging existing customer data ("instant products"). Modern deepening also entails offering third party financial and non-financial products.

- **Retention:** Finally, banks need to leverage analytics to detect signs of customer behavior shifts (e.g., less frequent logins, fewer digital transactions/interactions, reduced payment volumes) and engage them to address the issues. They also need to find ways to make instances of bad service more transparent across channels, to ensure they are available to colleagues at various customer touch points (branch, call center, etc.).

How to Successfully Build PBRs

Achieving success in a digitally led PBR model requires a strong top-down mandate from the Consumer CEO and an "all hands on deck" mentality. Banks must implement a comprehensive strategy focused across the customer lifecycle. Key questions include:

- How will we make mobile the primary PBR creation channel?

- How will we acquire high-quality leads that draw target and halo segments?

- How do we help customers develop the habit of using our bank?

- How do we adjust our product shelf to encourage primacy and drive deeper relationships?

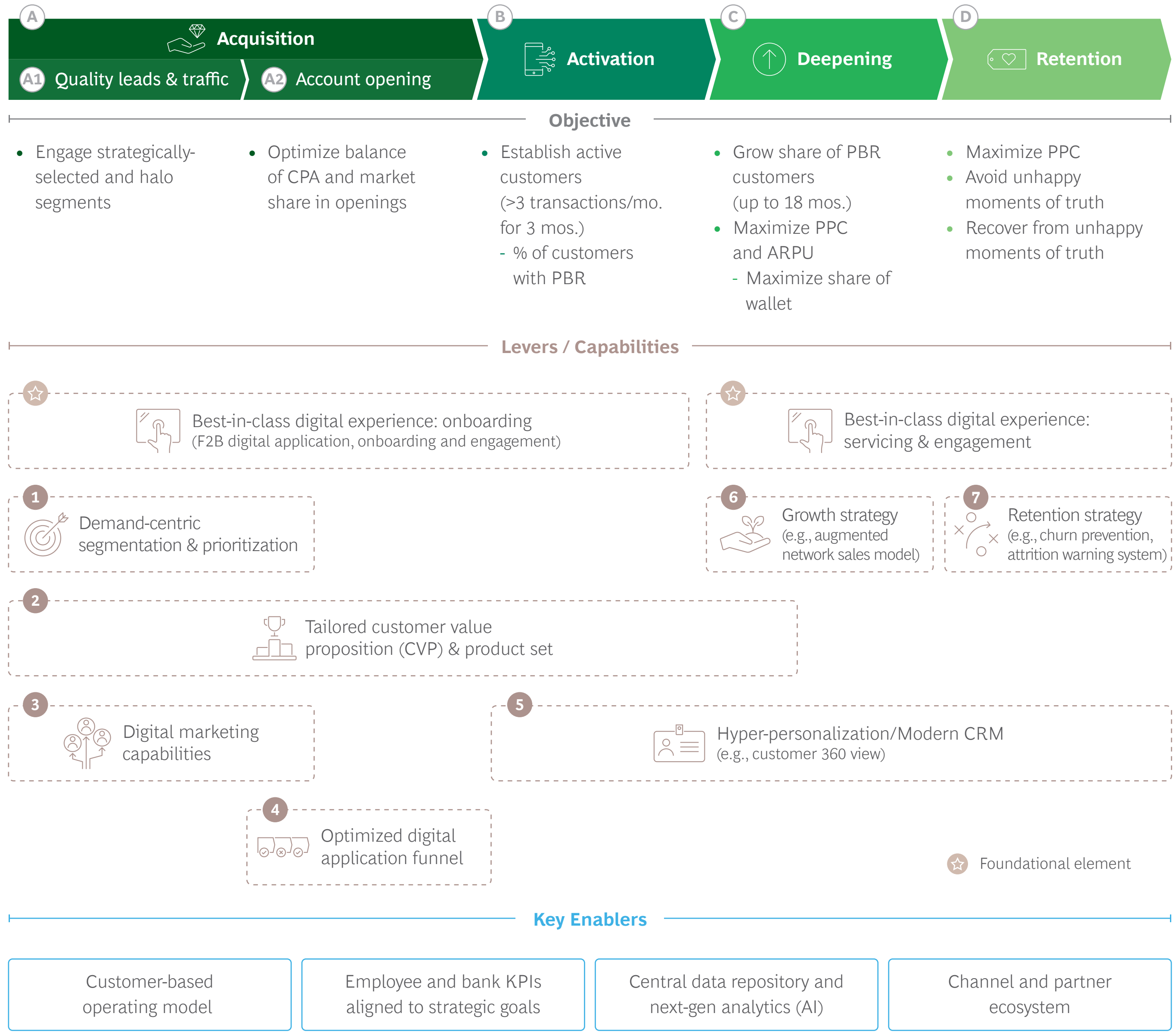
- How do we master modern personalization, i.e., use bank and external data to profile customers effectively, produce and maintain a broad campaign library, and use digital to place more than 1,000 conversations per customer per year?

- How do we proactively identify and recover from 'unhappy moments of truth' and strengthen customer trust and loyalty to prevent churn?

- How do we create a fully integrated omnichannel model where digitally led customers receive well placed branch/RM/call center support, branch led customers can leverage digital, and branch/call center staff are active advocates for digital?

Banks must holistically target their efforts on several levers across the customer lifecycle. (See Exhibit 2).

Exhibit 2 - Key levers to drive greater primacy across the value chain

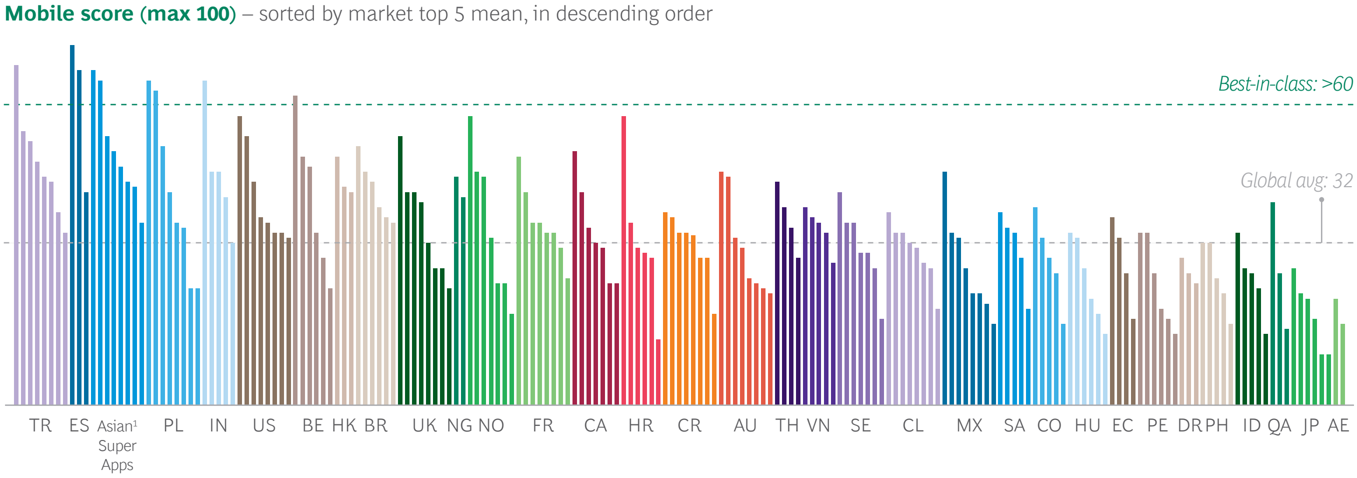


Note: PPC = Products per customer; ARPU = Average revenue per user

Key Foundational Component: Mobile

At the heart of a digitally led PBR model, banks will need mobile banking capabilities that are much more robust. Mobile banking must allow for seamless selling and robust servicing and engagement capabilities. Based on our benchmarking of ~350 banks globally, there is broad dispersion within and across markets. (See Exhibit 3). Regretfully, average banks only offer base transactional banking capabilities with entry-level selling, servicing, and personalization. This indicates continued high reliance on the branch network. It is notable that there are no barriers to achieving great digital services. Irrespective of size, geography, customer mix, any bank can offer a sophisticated mobile app.

Exhibit 3 - Best-in-class players outscore average bank by ~2x in Digital 360⁰ Diagnostic



Source: BCG Digital 360° Diagnostic, >340 mobile banking applications in >50 markets assessed (as of Jan 2024); not all banks & markets shown.

[1] Asian Super Apps include the following markets: China, Japan, Indonesia, South Korea, Singapore, India.

However, there is reason for optimism at most banks. We have witnessed several banks make dramatic improvements in their mobile banking capabilities within 12 to 24 months. Leading banks accomplish this by:

- Setting a bold, top-down ambition to dramatically improve mobile capabilities urgently, rather than incremental change (business-as-usual/BAU mode). Ensure this is a/the top priority for the bank with dedicated resourcing and funding.
- Adopting a "mobile first" mindset and operating model, versus thinking of digital as merely a support channel. Most actions, initiatives, and investments need to be prioritized with the goal of advancing mobile banking capabilities, potentially with major reprioritization of the bank's "change/IT/delivery portfolio".
- Organizing in multi-disciplinary pods that cut across traditional organizational silos. We have seen banks struggle to drive a good customer experience because of disconnects between product, digital, fraud, and operations teams.

Acquisition and Account Opening

To maximize the chance of achieving primacy, banks need to be very deliberate with a few key elements in the acquisition and account opening step of the customer lifecycle:

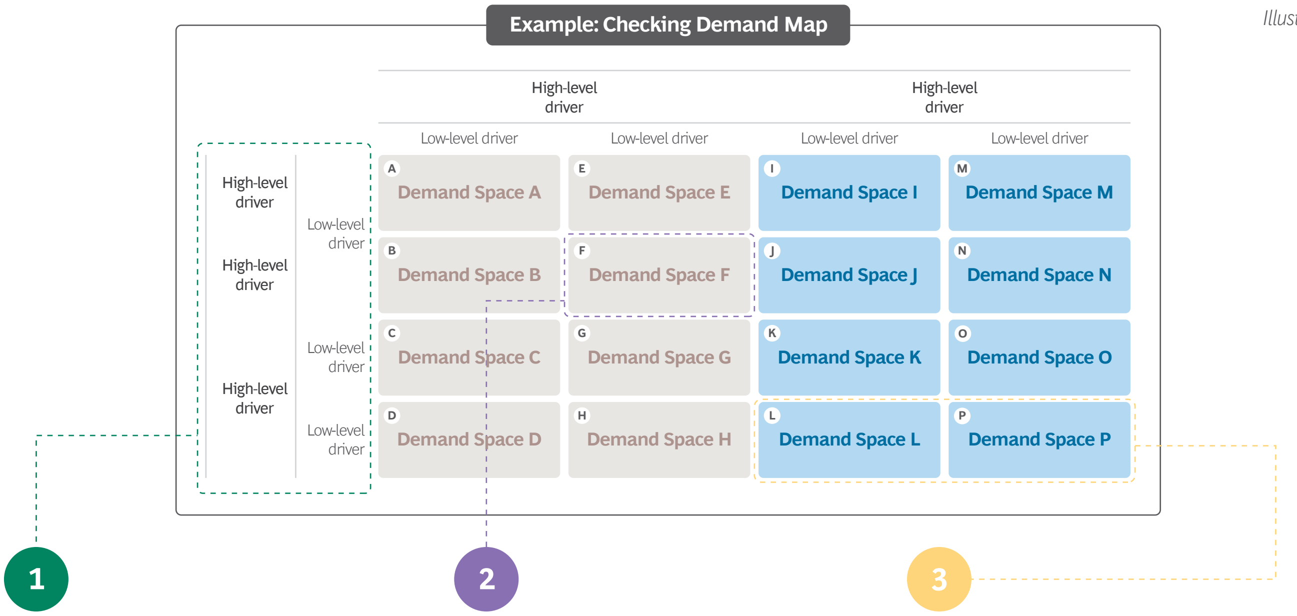
1. "Demand-centric growth" segmentation and prioritization

Banks continue to strive for meaningful growth in their customer bases. Through our work in similar slower growth industries (e.g., consumer packaged goods), we have developed a quantitative tool and approach to identify growth segments where individual players can win.

Each bank has a right to win with different segments based on varying, complex factors – for example, contextual/attitudinal behaviors, functional and emotional needs, demographic attributes. (See Exhibit 4). Banks must:

Exhibit 4 - Consumer checking demand map

Illustrative



Differentiating features
Key differentiating dimensions were identified based on analysis, incl.:

- Basic demographics (e.g., age, HHI)
- Contextual/attitudinal (e.g., channel preference, advice seeking)

Demand spaces
Demand spaces were mapped based on differentiating features—e.g.,

- Tech savvy wealthy millennial
- Reward driven connected urban parent

Functional and emotional needs
Needs were understood by demand space—e.g.,

- Emotional: Trendy, Security, Understood
- Functional: Intuitive App, Earn rewards, Low fees

- Create the overall **demand map** based on what drives consumer choice (i.e., identify the demand spaces by product)

- Prioritize **where to play** (e.g., attractiveness, strategic fit, right to win)

- Create an integrated plan on **how to win** (e.g., go-to-market approach across product/value proposition, distribution, and marketing)

2. Tailored customer value proposition (CVP) and product set

To drive PBRs, banks must seamlessly integrate their products, services, tools/features, journeys, and brand experience into cohesive offerings tailored to meet the functional and emotional needs of their target segments. Banks that adopt digitally led PBR models will be advantaged over their branch-focused peers across core CVP dimensions. For example, digitally led PBR banks will be able to operate at a lower cost structure, thus being able to offer more competitive pricing (e.g., hook pricing, promotional offers). Practically, this means:

- Tailoring investment in the offer towards each demand space, for example by providing easy access to high-quality human support in branches or on phone/video, or digital tools/guidance/nudges to support customers to make the right financial choices, or by innovating in digital experience.

- Offering high-quality foundational banking products and journeys. In the US, for example, banks will need to focus their efforts on providing a “spending account” that includes a) store of funds with ability to optimize yield on excess liquidity, b) payment functionality – P2P and P2B payments seamlessly across rails and form factors, and c) short-term lending to fund cash/liquidity needs with minimal hassle.

- Ensuring customers can acquire these products with a few simple clicks without having to reshare basic information about themselves. These products need to be digitally friendly, and many banks have an opportunity to simplify their product suite and terms and conditions to meet mobile standards.

When done well, this can help remove the reliance on price over time, positively contributing to CIR.

3. Digital marketing capabilities

Banks have found success in traditional marketing channels. However, digitally native generations and the capabilities digital marketing offers make channels like paid search or paid social crucial to success.

Digital advertising makes it easier to reach highly segmented audiences at a lower cost than traditional channels. Digital channels also allow companies to choose from different reach and quality options. For example, advertising on Google can be highly effective at driving high-intent, highly qualified audiences ready to buy a banking product. Meanwhile, Meta ads may be best at building brand awareness or promoting strong educational content, like webinars or white papers, early in the customer journey.

Digital marketing can also be used to capture quality customers without paid dollars. Search engine optimization (SEO) can promote expert content organically through highly ranked placements on Google or Bing. Localized content that is tailored to regional interests and highlights branch locations/specialties, can drive both offline and online conversions, for example in relation to local events, lifestyle, or financial wellbeing.

Managing digital acquisition is increasingly critical for banks and they need to:

- Determine their **marketing goals and how to measure success**. Digital marketing for brand awareness or lead generation will result in different campaign goals and success KPIs.

- Leverage their acquisition demand map to inform **paid digital marketing channel selection**. Affiliate and paid search are strong starting channels for lead generation initiatives, while paid social may be best for brand reach.

- **Complement** paid digital marketing **with an SEO plan**, informed by keyword and competitor research, to capture organic traffic through robust content.

- **Ensure cross-media coordination** between above-the-line (ATL) and digital marketing teams, for example by making sure that ATL is creating digital traffic effectively, coordinating budgets and tools, or measuring CPAs based on account activation levels at 3- or 6-months post account opening. This can help bring down digital CPAs.

- Leverage **first party data** to create **“digital siblings”** so banks can more effectively optimize third party advertising networks and partners.

4. Optimized digital account opening

Banks can maximize funnel conversion by optimizing the account opening flow, while leveraging data and analytics and FinTech partnerships (e.g., Prove, Onfido, Jumio) to weed out fraudsters. Account opening should take less than three to five minutes and leverage existing customer data or make it easy for customers to provide required data from their phones. Many banks will need to rethink the account opening process through a mobile/digital lens, rather than simply replicating their branch-based process and policies in digital. For many, this will require deep technical re-work of core capabilities (e.g., KYC, AML, authentication and authorization methods, single sign-on, fraud, cyber) and changes in underlying limits and procedures. In nearly all markets, a fully digital opening process is possible and has proven to work well, safely, and in a compliant way[3].

Activation

Once customers are acquired, banks need to proactively ensure they are fully activated. About 60–70% of digitally acquired customers may never activate. Banks need to ensure accounts are immediately enabled for usage (e.g., digitally provision debit card, enable payments, and reward first wave of transactions). Best practice players have created a portfolio of about 100 specific activation campaigns delivered in a highly personalized manner based on actual customer behaviors, rather than following a rigid pre-determined sequence of communications. Campaigns would promote customers funding and using their accounts: gamifying elements of the experience to drive the behaviors that will set up customers for primacy or "hook pricing" for activation (e.g., "pay for transacting", ecosystem offers, promotional savings rate for highly transacting customers). Additional offers could include seamless methods for direct deposit linkage (e.g., payroll deposit redirect), mobile bill pay tutorials, and reward offers for Zelle and/or loyalty program sign-up and usage.

In addition, activation and digital usage needs to be promoted in branches and call centers. Front-office colleagues should be trained on the mobile app and coach customers during branch visits or calls. Incentives need to focus on cross-channel collaboration, rather than incentivizing short-term, channel-specific attribution.

Deepening

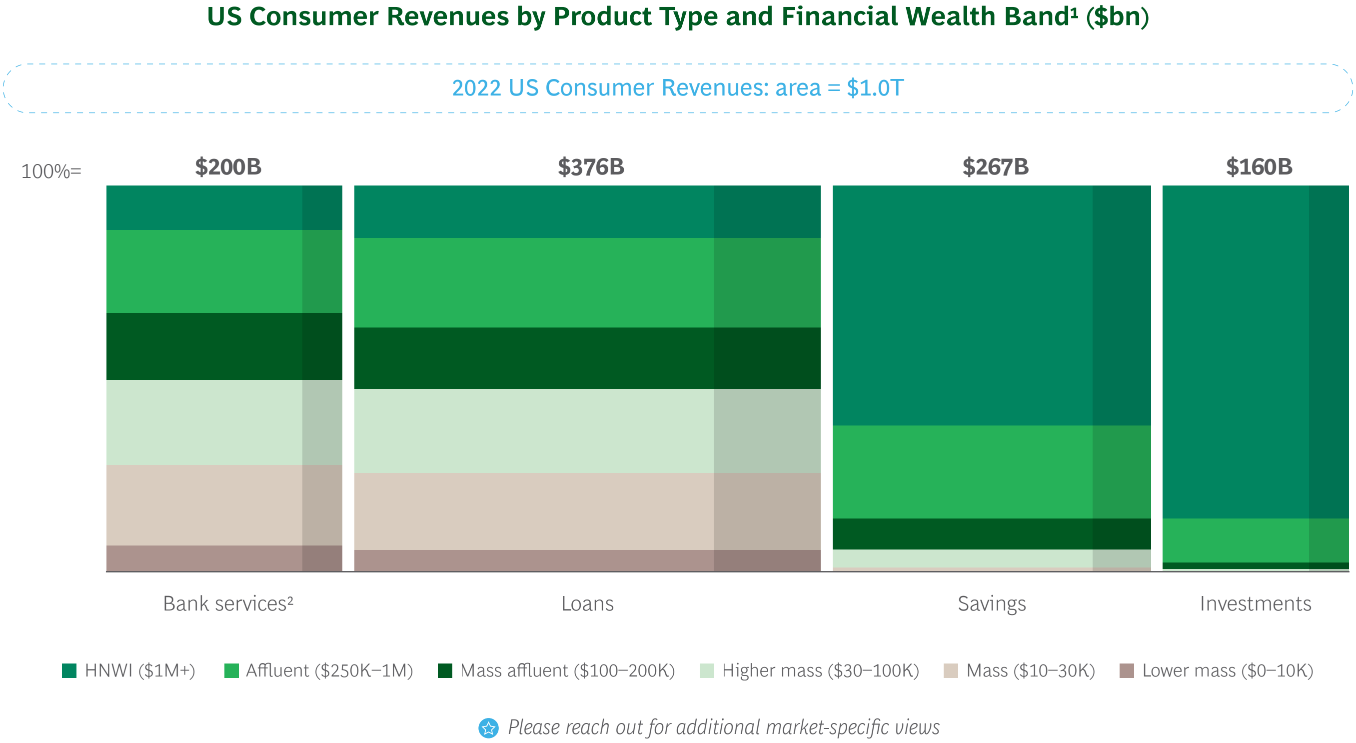
Deepening is critical to maximize value potential and drive stickier relationships. Revenue and profit pools vary by segment, so strategies need to be aligned with underlying segments and their financial needs. (See Exhibit 5). For the affluent, deepening will mean winning customers' wealth that is likely held at other providers.

With the foundational products in place, there is an opportunity for banks to further innovate and develop a **product construct** that encourages greater share of wallet. One of the best US examples is Bank of America's Preferred Rewards program, through which the bank provides greater benefits to customers that do more business with it, akin to an airline or hotel loyalty program.

Modern CRM/hyper-personalization capabilities are critical to leverage the transaction history of customers and model "next best action/communication" for customers based on their specific needs, life situation, or context. Personalization of each individual client interaction needs to be differentiated by tone, context, trigger, behavioral segment, channel preferences, and results of continuous experimentation, A/B testing and reinforcement learning. With recent advances in AI, we are now in a position where every client interaction can be hyper-personalized and controlled by a central orchestration "brain" which will learn from ongoing customer interactions and balance continuously between client needs and the bank's engagement goals. Mobile apps need to display value-add messages (e.g., contextualized product suggestion) or offerings that can easily be fulfilled online.

3. The only exception are countries where the regulators hard-require wet signatures to complete the opening process (e.g., Russia) or dedicated physical terminals should digital process not be eligible for some customers (e.g., Aadhar and E-Aadhar in India).

Exhibit 5 - Consumer product revenues by wealth band (US example)



Source: BCG Banking Pools, BCG Analysis.

[1] Financial Wealth includes liquid transaction accounts, term deposits, stocks, bonds, investment funds, retirement accounts, and cash value of life insurance, and excludes primary residences.

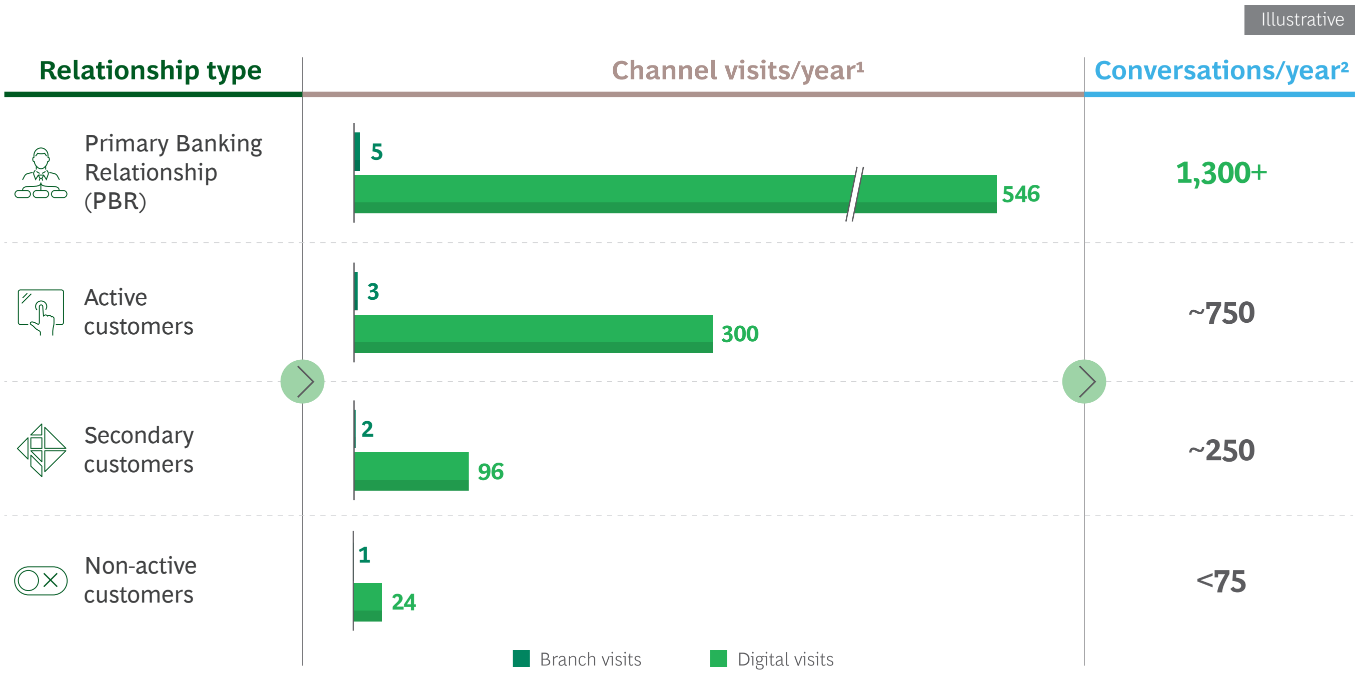
[2] Includes other fee products (e.g., card transactions, overdraft, and other daily banking transaction fees).

Banks that have mastered modern personalization can point to several key metrics:

- **Scale:** 800–1,000 campaigns with 9–15 different variants (7,000–15,000 variants in total)
- **Velocity:** 60–100 campaigns per month
- **Efficiency:** 5–7 end-to-end pods of 40–60 colleagues to drive the ongoing work around value proposition, creative, communication, analysis, monitoring, modelling, and data sourcing
- **Relevance:** users will say "I receive relevant communications with the right intensity and context"

The engagement differences with digitally active, PBR-led customers are significant. (See Exhibit 6).

Exhibit 6 - Digital yields significantly higher levels of interaction; PBRs generate 1,300+ conversation opportunities per year



Source: BCG analysis.

Note: PBR = Primary banking relationship; Non-active defined as customers with <1 payment over the last 3 months; Secondary defined as customers with <3 payments over the last 3 months; Active defined as customers with at least 3–5 payments over the last 3 months; PBR defined as customers with >10 payments per month AND one recurring payment facility.

[1] Digital includes mobile and online.

[2] Initiated, relevant conversations per customer.

Finally, banks will need to rewire their **operating models** across channels:

- Systematic use of channels to engage and prioritize both existing clients and potential prospects
- Optimized, robust pathways to route clients and prospects across channels. Banks should either nudge customers to the channel of "best fit" or be prepared to fulfill in the customer's channel of choice
- A centralized data analytics engine driving lead generation and matching
- Key capability blocks in place – for example, sending leads to each channel, offer construction and presentment, appointment calendaring
- An operating rhythm in branches that is geared toward serving pre-booked appointments and leveraging data and analytics triggers to address unintended service issues and/or win new business

Retention

While primary customer attrition should be significantly lower than attrition in the rest of the book, banks need to ensure they are proactively monitoring their primary customers for frustrating experiences (e.g., service issues) and/or signs of reduced balances or activity levels. Actions and treatments will vary by customer segment and value to the bank, but banks need a library with pre-defined treatments and engagement routines (e.g., RM call, app notification, email) to prevent losing business. Early indicators will be related to frequency of logins, number of payments, loss of recurring payments, and negative events (e.g., overdraft instances, failed/declined payments, app crashes, fraud events). The campaign and treatment library should span from early signals and healing to events which are hard but necessary (e.g., loan decline or collections).

Lastly, retention is also about creating delight as customers use bank services. Particularly important are events where the bank handles negative events, even those not created by the bank specifically (e.g., lost card, fraud). If managed properly, banks can turn these into loyalty enhancing events, rather than events that create an invitation to test competitive services.

Measuring and Monitoring Success

To measure and track a bank's success in building and maintaining primacy, we suggest focusing on a handful of key metrics across the customer lifecycle. (See Exhibit 7). Successful banks will create processes to systematically track and monitor performance across these key dimensions (e.g., periodic look-back), while also building accountability (e.g., internal target setting) to ensure they are effectively driving and maintaining PBRs.

Exhibit 7 - Core metrics to test a bank's success in achieving primacy

Lifecycle stage	Core metric/KPI	Best-in-class
Acquisition	• % of sales done e2e digitally (NTB)[1] • Funnel pull-through rate	• >50% • >90%
Activation	• % active customers[2] at 6 months • % digital enrolled customers • % mobile enrolled customers • % active customers[2] • Average customer logins per month • % of customers achieving "primary" status[3]	• >60–70% • >90% • >95% • >70% • >30 • >60%
Deepening	• % of sales done e2e digitally (ETB)[4] • # of products per customer • Average relationship balance per primary vs. active customer[5]	• >70–80% • >3.5 • >3x
Retention	• % Hard attrition[6] • % Soft attrition (client specific)[7] • Net Promoter Score (NPS)	• <2–3% • <2% • Top 1–3

Note: e2e = End-to-end; NTB = New-to-bank; ETB = Existing-to-bank.

[1] End-to-end digitally fulfilled sales to new-to-bank customers completed in digital channels.

[2] Active defined as: customers with an average of 3–5 payments per month over the last 3 months.

[3] Calculated as a primary customers as % of active customers; primary defined as: customers with >10 payments per month AND one recurring payment facility.

[4] End-to-end digitally fulfilled sales to existing-to-bank customers completed in digital channels.

[5] Calculated as primary customer relationship balance as % of active customer relationship balance; relationship balance reflective of deposits (checking, savings), loans (mortgage, home equity line, unsecured personal, credit card), and investments.

[6] Customer account closure.

[7] Accounts where there has been significant diminishment of balance or activity level (e.g., 50% YoY reduction).

Where To Go From Here – Key Imperatives

While banks may be at different stages on their journeys to building PBRs, many have the necessary pre-requisites in place. The challenge is how to drive a step change in primacy levels amongst existing and newly acquired customers. To continue to move towards this goal, and translate primacy-focused initiatives into bottom line impact, we recommend:

1. Digital/mobile-based PBR should be within the top three priorities for any bank CEO and communicated as such to all leaders with a clear, aspirational definition of PBR

2. All relevant leaders need to collaborate and coordinate their respective portfolios on driving a common set of PBR goals – some projects/priorities will be restacked

3. Personalization capabilities must be robust enough to operate at the scale and velocity required to capitalize on the value of the increased digital traffic PBRs generate

4. Branch (and contact center) incentives should support migrating and enabling digitally led PBRs rather than fighting for or managing their respective books

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