The pandemic motivated customers to conduct complex business transactions using digital tools. Now, banks have the rare opportunity to change the way they do business.

In a desperate scramble to keep functioning during the pandemic, retail banks rolled out digital tools—and they were enthusiastically embraced by customers. So much so, in fact, that customers now expect to continue using them. For banks, this shift is significant: customer acceptance means that they can use these digital tools as the foundation for a new, bionic distribution network.
A bionic distribution network is built on the principle that technology should reinforce the power of human ingenuity and endeavor. When implemented correctly, this distribution model can enhance the quality of customer relationships and experiences, boost the productivity of sales specialists or relationship managers (SSs/RMs), lower the cost of serving customers, and improve a bank’s competitive footing. To begin, banks need to understand what the bionic distribution network looks like in action, how to put it in place, and the performance improvements to expect.

**HYBRID BANKING EMERGES**

Retail banks have been incorporating technology for years, gradually expanding their digital offerings while maintaining the in-person experience. And increasingly, customers have been taking advantage of both. For frequent but relatively unimportant everyday banking transactions, they have been using digital channels. For more complex needs, however, such as wealth management, insurance, a mortgage, or a small-business loan, customers have been choosing to interact in person.

Then the pandemic hit, and banks were forced to take their digital capabilities to the next level. To address customers’ needs during lockdowns that significantly curtailed if not eliminated in-person banking, financial institutions further improved their digital channels and used video conferencing tools to stay in touch with customers. What rapidly emerged is what we call the bionic distribution network: a hybrid-banking model that has more seamless digital and in-person experiences—and ones that are not necessarily linked to a branch.

Under this new hybrid model, customers can meet virtually with their SS/RM and product specialist who may or may not be at their branch. Proposals and contracts can be exchanged electronically. And digital signatures can seal the deal. In-person meetings are possible—perhaps at the start of a relationship or if the topic is very sensitive—but they are not required. In addition, the advanced technologies that automate administrative and repetitive tasks give SSs/RMs and product specialists more time to spend on higher value activities, such as analyzing customer data and tailoring proposals to fit customers’ needs.
What’s remarkable is how quickly customers have embraced this new way of banking. In November 2020, we conducted a survey of bank customers, and about half of those who use specialized products said that they prefer some type of hybrid customer journey to one that is fully digital or always in person. (See Exhibit 1.) The pandemic has made feasible the kind of radical change to the traditional branch-based distribution model that previously seemed risky, if not impossible. And that has huge implications.

THE THREE PILLARS

In the post-COVID-19 world, leading banks will ramp up a bionic distribution network. The speed and scale of the network redesign will depend on a bank’s current digital capabilities and the amount of capital it allocates to the initiative, but all bionic distribution networks rest on three pillars.

Offering a Hybrid Customer Journey
Before the pandemic, many retail banks focused mainly on their traditional distribution network: selling products and providing services at branches. After the pandemic, banks that use the bionic distribution network will offer a hybrid customer journey: they will have onsite and offsite sales and services.

To implement a hybrid customer journey, banks will need to rethink how they use their infrastructure and how they hire and assign employees. (See Exhibit 2.) Banks should restrict the physical size of branches, while enabling SSs/RMs and product specialists to work remotely in central locations and from home and while employing a mix of full-time and part-time workers. Those that do will be able to offer extended hours, because the bionic network can be “open” even when physical branches are closed. These steps will let banks be agile so that they can serve customers when and how it’s convenient for them.

Offering a hybrid customer journey will let banks not only respond to customers’ needs but also to changing economic conditions. Currently, fixed costs are one of the biggest downsides of the branch network because they make it difficult to ramp up capacity in
good times and scale back during tougher conditions. Gaining this flexibility, however, also depends on designing and managing a bionic distribution network that can quickly begin to pay for itself on an ongoing basis—or at least one where income and costs remain comparable to those of the traditional distribution network.

That said, there is a long-standing tradeoff between operating an efficient branch network and having enough branches to ensure proximity to customers. For example, cash handling is a critical need for some customer groups, particularly small businesses. There is no one solution to this dilemma; rather, banks should look to a mix of possible solutions.

If a bank has small branches, managers of those branches could coordinate tellers’ shifts with other nearby branches so that tellers work mornings at one branch and afternoons at another. Or tellers could change roles in the afternoon and become an SS/RM to customers. Meanwhile, a mix of interactive teller machines (ITMs), cash-in ATMs, and cash-depositing machines can alleviate the cash-handling burden on an individual branch.

A bank also needs to map out new customer journeys and touch points for a hybrid customer journey. The journeys will need flexibility to accommodate customer requests, while also ensuring that SSs/RMs and product specialists use their time efficiently. Moreover, the touch points must be highly coordinated so that employees and customers can easily pick up where they left off and move from one stage of the journey to the next.

**Reinforcing Employees’ Capabilities**

SSs/RMs and product specialists will need training to work efficiently with digital tools, to track multiple in-person and digital touch points, and to manage their time—especially when working from home. Virtual interactions with customers present new challenges, and employees should receive training in how to conduct these meetings and close deals. They’ll also need a more technical education on how to securely exchange proposals and documents with customers and get their digital signatures.

“Working remotely and outside the standard operating hours may pave
Virtual interactions with customers present new challenges. Training in how to conduct meetings will be needed.

The way for different compensation structures that have a variable component. But banks should be careful to avoid making the variable element so significant that they incentivize SSs/RMs and product specialists to pursue risky behavior or to neglect aspects of their jobs that are not tied to the variable component. At the other extreme, compensation structures should reflect that SSs/RMs and product specialists are not considered call center operators.

Training SSs/RMs how to efficiently use the new digital tools and how to achieve the right balance of in-person and digital interactions will reduce the cost to serve customers. SSs/RMs will be able not only to manage a greater number of customers but also to focus on the most promising and profitable ones. The right balance is also key to SSs/RMs maintaining good customer relationships and their own morale, particularly when it may seem that digital tools are diminishing their role rather than enhancing it.

**Doubling Down on Analytics and AI**

The third pillar of the bionic distribution network is using data analytics and artificial intelligence (AI) to strengthen and orchestrate it. Analytics and AI are instrumental in creating an almost frictionless customer journey and a more effective bank-customer relationship. Analytics and AI help SSs/RMs and product specialists maximize their in-person and virtual customer-facing time and ensure that customers receive the most relevant information and proposals at the best possible time in the most appropriate channel.

For example, an AI engine may recognize that a customer with a stable cash balance is frequently browsing the investment section of the bank’s website. If the customer usually logs into the account from a computer at around eight o’clock in the morning, the AI engine could send the customer an email invitation on behalf of the SS/RM for a meeting.
around that time. Similarly, if the customer usually logs in during the evening from a smartphone, the AI engine could send a text or social media message that invites the customer to connect with the SS/RM then.

**FACILITATING CHANGE**

As well as implementing the three pillars, transforming a bank’s distribution network requires a deep review of the institution’s current structure and then taking several concrete actions to facilitate change. For example, employee audits and supervision will need to evolve as offsite shifts are introduced and remote work becomes more commonplace. Employment contracts must be examined and eventually renegotiated, including updating productivity metrics and incentive systems, to reflect remote-working practices.

“Transforming a bank’s distribution network requires updating productivity metrics and incentive systems.”

Moreover, since customer journeys and interactions will take place across multiple touch points, the way contracts for products and services are executed will need to evolve. For example, remote processes must allow for the unique identification of SSs/RMs and product specialists, the use of their power of attorney, and the exchange of documents through the internet or mobile-banking infrastructure.

Further, IT systems and security need to support hybrid interactions and help orchestrate customer journeys. For example, data analytics and AI systems should give SSs/RMs and product specialists the best possible leads at the right time in the right channel. To make use of these tools and embrace new ways of working, SSs/RMs, product specialists, and branch managers will need comprehensive retraining.
Finally, the bank needs to prepare the customers themselves for these new hybrid journeys. This will involve specific onboarding for different customer profiles, tailored scripts for SSs/RMs, and targeted marketing campaigns.

**THE BENEFITS**

Implementing the three pillars and pursuing change management across the distribution network will take a serious commitment of time, effort, and resources. But the rewards are significant. Our analysis shows that banks could increase pretax profit by as much as 45%, assuming constant product margins. The cost-to-income ratio, under the same assumptions, can be improved by 15% to 20%.

Furthermore, for a bank with a branch network of several hundred or more branches, we estimate that the direct costs for operating the network (not including central costs) could fall by 25% to 35% if the bank moved 70% to 80% of its SSs/RMs and product specialists to an onsite-offsite work schedule. By our calculations, such a move could result in having 30% to 40% fewer branches, with a higher proportion of the large branches serving as hubs for product specialists and supported by the smaller branches. (See Exhibit 3.) Of course, these footprint savings are easier to achieve in densely populated urban areas; rural regions will realize savings by relying more on changes in the way branches operate.
Besides the significant cost advantages that are possible with the bionic distribution network, there are also revenue opportunities. Because the hybrid model reduces the travel requirements for SSs/RMs and product specialists, they can have more customer meetings. And because advanced technology frees them from routine tasks, they can focus more on high-value transactions and use AI to improve their conversion rates. Given all this, we estimate that banks with a bionic distribution network could grow revenue by up to 10%.

The pandemic prompted customers to adopt new ways of banking, and they did so gladly. Retail banks should build on this shift by implementing a bionic distribution network that allows employees to engage with customers in ways that they have come to expect. Banks that do will benefit not only because they have lower costs but also because they are more agile and ready to compete in the postpandemic environment.
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