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Evolution of the Italian banking customer behaviors in the digital ecosystem

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Henk Broeders
Gabriele Vigo
Enrico Lucchinetti
Nicola Sandri
Federico Fumagalli
Giovanni Ciarlariello
Laura Maida

In cooperation with
Google

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Over the past year, McKinsey & Company, in cooperation with Google, undertook research into the digital behavior of Italian consumers and the implications for Italian banks. The project looked at the Italian digital banking market in comparison to the rest of Europe. The five largest European economies were selected for the purposes of this comparison—an "EU-5" of France, Germany, Italy, Spain, and the United Kingdom. The research explored the digital business landscape, seeking answers to fundamental questions about consumer behavior and digital banking. What are the contours of Italian digital behavior? What is the present status of digital banking? What is the size of the digital opportunity and how can banks invest to capture it?

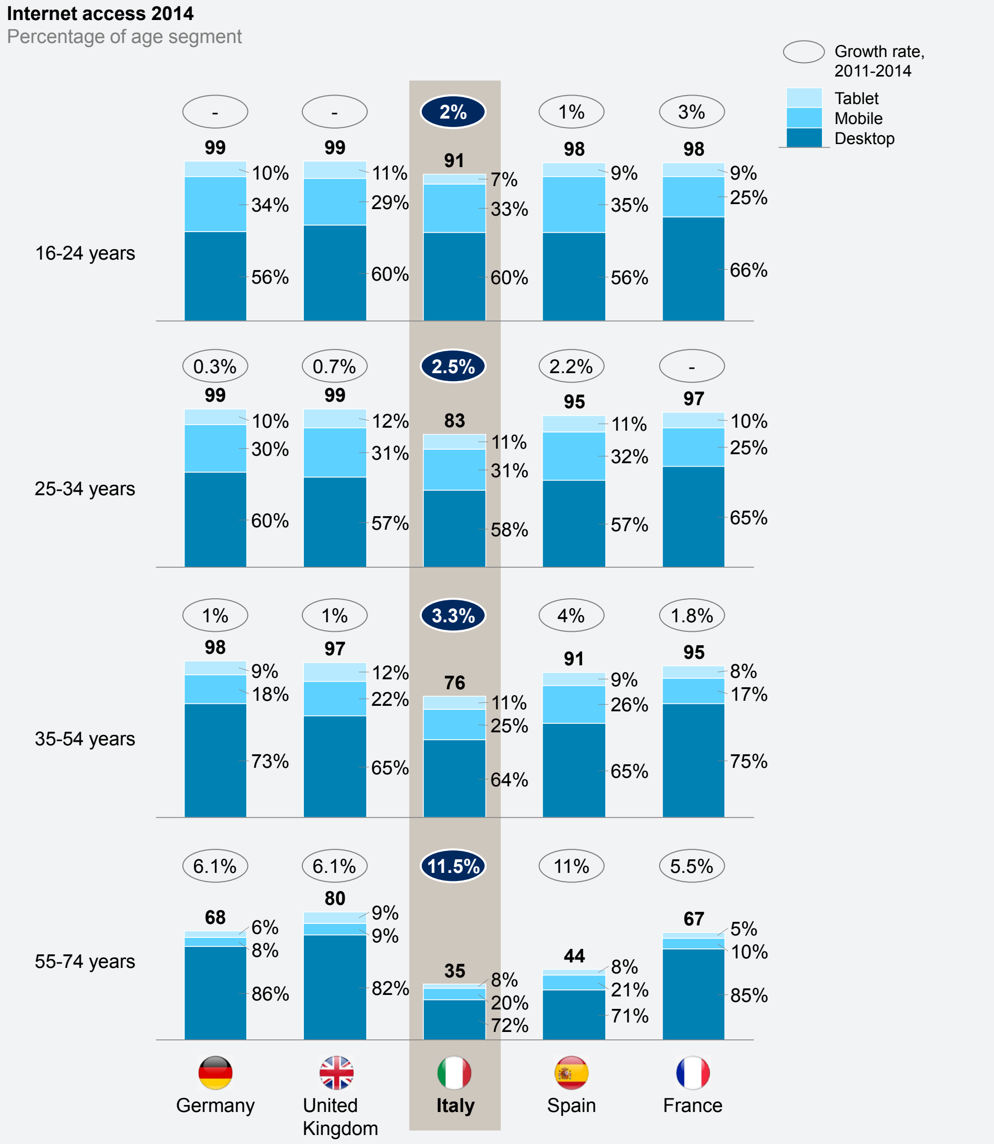
Unlearning myths about digital behavior in Italy

In the course of the research, many assumptions about Italian digital reticence were dispelled. Indeed, Italy has ground to make up, but the landscape is shifting—the result of both a generational change and the global evolution toward mobile devices.

Italy does lag behind its European peers in fixed broadband penetration (23 percent versus the EU-5 average of 40 percent) and overall Internet penetration (59 versus 84 percent). Italy does match the EU-5 in smartphone penetration (60 percent). Even more importantly, Italy exceeds the rest of Europe in the percentage of active Internet usage (86 versus 83 percent). The gap with the European peer average is largely due to lower online activity among older Italians. This is mainly an access gap, however, since older segments that have Internet access use it as much as younger segments. As the younger generation matures, furthermore, that gap will narrow and disappear. Already, more than 90 percent of 16- to 24-year-old Italians use the Internet, a level only 7 points below the EU-5 average for this segment (Exhibit 1).

Exhibit 1

Only older Italians lag behind European peers in overall Internet access—which is rising fast in all age segments



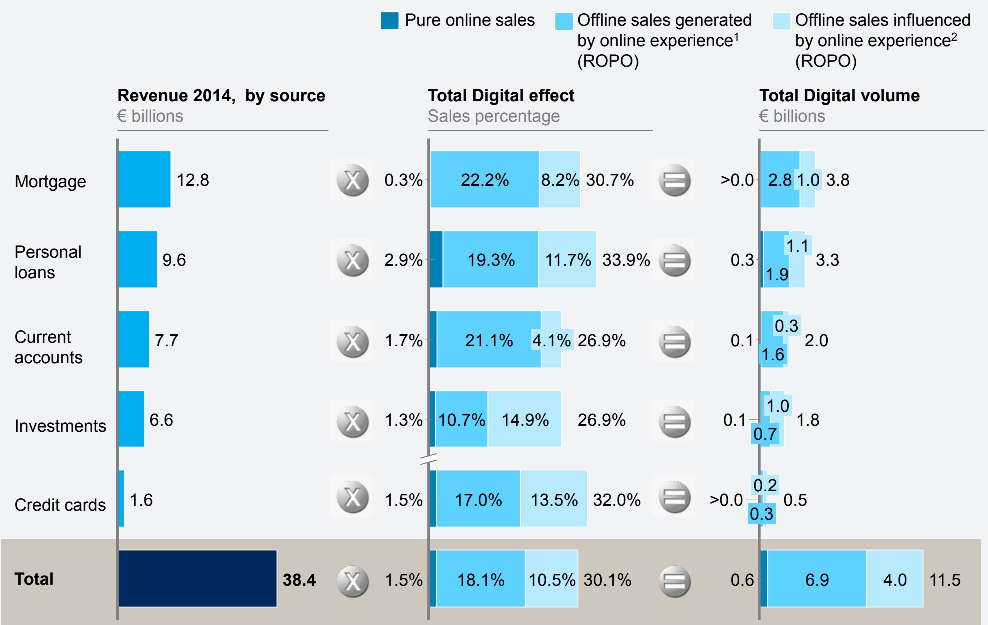
SOURCE: ISTAT; Audiweb; Eurostat

Italy's low level of e-commerce penetration has drawn media and corporate attention in recent years. At 2.3 percent, the online share of total Italian retail sales is one-third that of the other European peer countries (7.7 percent on average). In banking, purely online sales represent only 1.5 percent of all sales. Evidence suggests that the e-commerce gap is largely due to limited online bank offerings, however. In segments like banking, where few products can be bought through an end-to-end online process, e-commerce penetration is predictably low. On the other hand, in segments like tourism and travel, where the digital offering in Italy is rich, Italians purchase products through digital channels on par with European consumers.

The data also revealed that Italians meet and sometimes exceed European averages in online research leading to purchase. This is the "ROPO" effect—research online, purchase offline (Exhibit 2). This effect is already significant in banking, accounting for around 30 percent of sales revenues. In Italy as much as in European peer nations, online and mobile channels have become more important as sources of information, comparison shopping, and opinions and reviews on products and services. This role puts digital channels at the heart of the consumer purchasing decision, no matter where the purchase is finally transacted.

Exhibit 2

"ROPO" effect totals € 11 billion in revenue for Italian banks in the Retail segment



1 Researched online, product decision changed online and purchased offline.
2 Researched online, product decision confirmed online and purchased offline.
SOURCE: Digital Consumer Knowledge Italy 2015; McKinsey Global Banking Pools

The three roles of the digital channel

In banking, as in other sectors, digital channels play three roles in customer decision journeys: as research destinations, imparting information and influencing purchasing decisions; as sales and distribution platforms; and as destinations for after-sales activity and the exchange of information on the customer experience.

Online research

Our data revealed that digital channels are being used to make purchasing decisions in Italy at rates comparable with those of European peers. The number of search queries in travel, apparel, and telecommunications grew 30 percent faster in Italy over the past 7 years than in Germany and France. In financial services the growth rate for online usage in Italy exceeds that of Germany by 50 percent. Our research suggests that, in banking more than other sectors, the role of digital channels is especially important to consumers. One reason is that, while customers buy banking products and services infrequently, these purchases command more customer engagement and deliberation. Ultimately, banking clients more often prefer face-to-face meetings to close a deal, but that meeting will typically have an elaborate digital prehistory.

Online distribution and sales

Italy trails peers in e-commerce, with a digital share of only 2.3 percent, compared to the United Kingdom's 13 percent, Germany's 8 percent, and France's 7.1 percent. Italian e-commerce is growing faster, however—at an average of 17 percent in past 2 years. By comparison, the EU-5 average is 7.7 percent, with a growth rate of 11 percent over the same period. Italian consumers spend € 366 per capita per year online, with 8 percent annual growth in the past two years, whereas UK consumers spend € 1320 (with 6 percent growth). Moreover, in the past five years e-commerce in Italy shows a countercyclical trend: the total retail market decreased by 8 percent between 2008 and 2013, whereas e-commerce during that time grew annually at an average rate of 22 percent.

Our market research further indicates that the existing gap in Italian e-commerce is not due to a deficiency in consumer interest. The data shows that Italians use digital channels for research and information nearly as much as European peers, but a significant gap exists in terms of electronically available products and services.

E-commerce is already the main sales channel in Italy in some product categories, especially those that are more internationally visible. In tourism and travel, for example, Italian e-commerce penetration rate is 25 percent and the annual spending per person is in line with the European average.

Online after-sales and customer experience

The role and usage of online channels varies in magnitude along the three stages of the customer purchase funnel that we have been discussing. At one end, the use of digital channels as a platform for information and research is practically ubiquitous. At the other end, few conclude sales through digital channels—though a large share of brick-and-mortar deals have a long digital prehistory. An important part of the purchase experience that has not received adequate attention in the digital channels of Italian banks is the after-sales component.

The use of digital channels for after-sales interactions, in which customers connect with companies and exchange opinions about products, has developed differently in Italy than in European peer countries. Italian banking consumers more often resort to unofficial websites to receive this support than do their European counterparts. The lack of adequate online support from many Italian companies has triggered a consumer migration to blogs and forums dedicated to troubleshooting and exchanging information on purchases. If digital channels are to become true end-to-end sales channels, then companies need to strengthen this part of their offering.

The five patterns of digital behavior

In seeking to understand the online behavior of banking clients more deeply, we have found five distinctive patterns, based on the levels of customer engagement with the Internet and how they express their digital channel preferences.

- **Levels of engagement** reflect deepening online involvement. Most of the population performs basic online research. Many move on to functional interaction, in which particular online acts are performed, such as banking transactions, with varying frequency. The deepest level is engaged interaction, which involves deep ongoing online relationships.
- **Channel preference** is a defining attribute of customer relationships: does a customer use online channels to extend the physical, branch-based relationship as the principal means of interaction with the bank or as part of a multichannel relationship?

Based on these two measures—level of engagement and channel preference—we have been able to identify the five patterns of digital activity. The patterns provide a helpful lens for understanding the effect of the digital age on traditional banking segmentation.

1. **"Naturally digital."** These consumers are supremely comfortable online and engage deeply with digital channels. In their decision journeys, they use digital channels first, in preference to offline channels. They are experts in social networking and tend to look for customized and tailored solutions.
2. **"Digital by convenience."** These consumers choose to engage with digital channels for practical reasons, especially due to constraints of time or location. For this group, digital has become the main channel but they are not necessarily looking for superior customer service. They will use the digital channel also for after-sales assistance if they find it easy to manage.

3. **"Digital by choice."** These consumers actively choose digital or offline channels depending on which will deliver the better customer experience. They are comfortable in both worlds and when they do choose the digital channel, they behave much like "naturally digital" consumers.

4. **"Digital by opportunity."** These consumers use digital channels to widen the selection of products and services they are seeking beyond what is available offline. For this segment, the digital channel augments traditional offline channels and they look for a true multichannel experience.

5. **"Digital as add-on."** These consumers use digital channels sparingly, to complement physical channels. This segment prefers traditional channels, but has a working knowledge of the digital world and is willing to enter cyberspace to perform basic research.

Behavioral insights and traditional segmentation

In designing their digital strategies, banks can gain rich insights by combining these patterns of digital behavior with traditional banking segmentation, based as it is on lifecycle phases and wealth categories. To begin with, the different digital behavior patterns map into specific clusters within banking segments.

- **"Digital as add-on" consumers** comprise the highest share of the "base" or "mass" banking clientele. They thus represent the client segment that has the lowest per-capita banking profitability, with only 65 percent of the average per-client revenue generation.

- **"Digital by convenience," "by choice," and "by opportunity"** are the categories possessing the highest share of affluent clients, and thus represent above-average revenue potential for banks. Digital bank strategies must centrally address the interests of these consumers, which are convenience, ease of use, and rich and available product and service offerings.

- **"Naturally digital" consumers**, interestingly, do not align neatly with the expected profile of young generations, as 43 percent are over 40 years old. This group promises to grow in the coming years and the banks that satisfactorily address their advanced digital preferences will gain share today, but will also be building profitability into their own (digital) future.

30%

share of sales in Italian banking influenced by digital channels

60%

share of touchpoints during research of information through digital channels

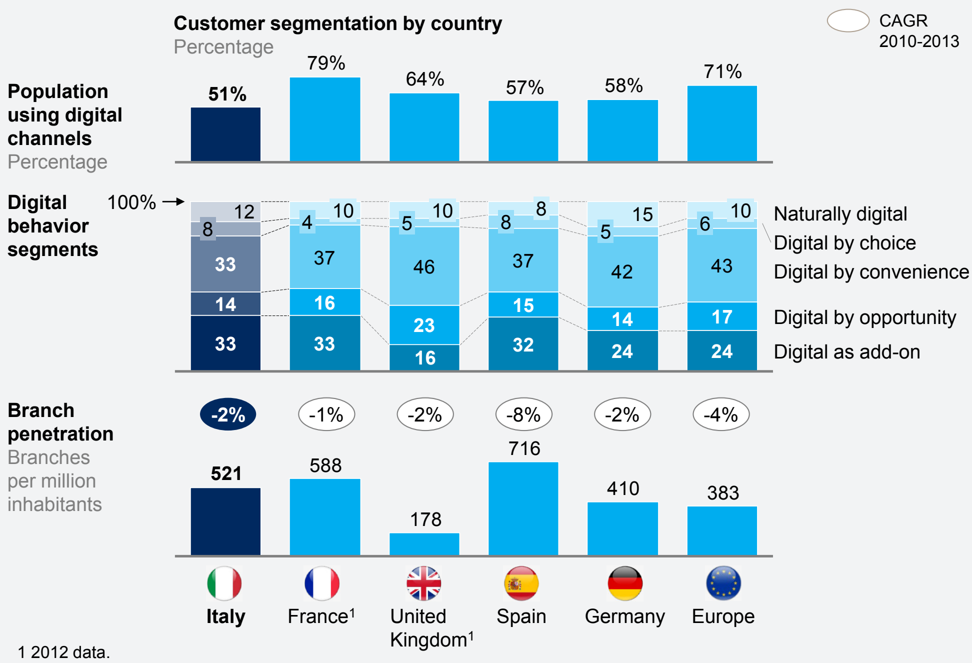
+50%

in the economic performance of top digital banks vs. digital laggards

Notable in the breakdown for Italian banking clientele is the presence of a higher percentage of "naturally digital" consumers (12 percent) than the EU-5 average (10 percent). Of the other behavioral categories, Italy has a higher share of "digital as add-on" consumers (33 versus 24 percent for the EU-5), and a lower share of the important middle three categories. In Italy the "digital by convenience" category— consumers whose Internet use is determined by ease of use and accessibility—comprise 33 percent of the total, whereas the EU-5 average is 43 percent. These disparities may be partly due to a more extensive bricks-and-mortar presence in Italian banking, with 521 branches per million inhabitants compared to an EU-5 average of 383 (Exhibit 3).

Exhibit 3

Customer segmentation by digital behavior and branch density by country



1 2012 data.

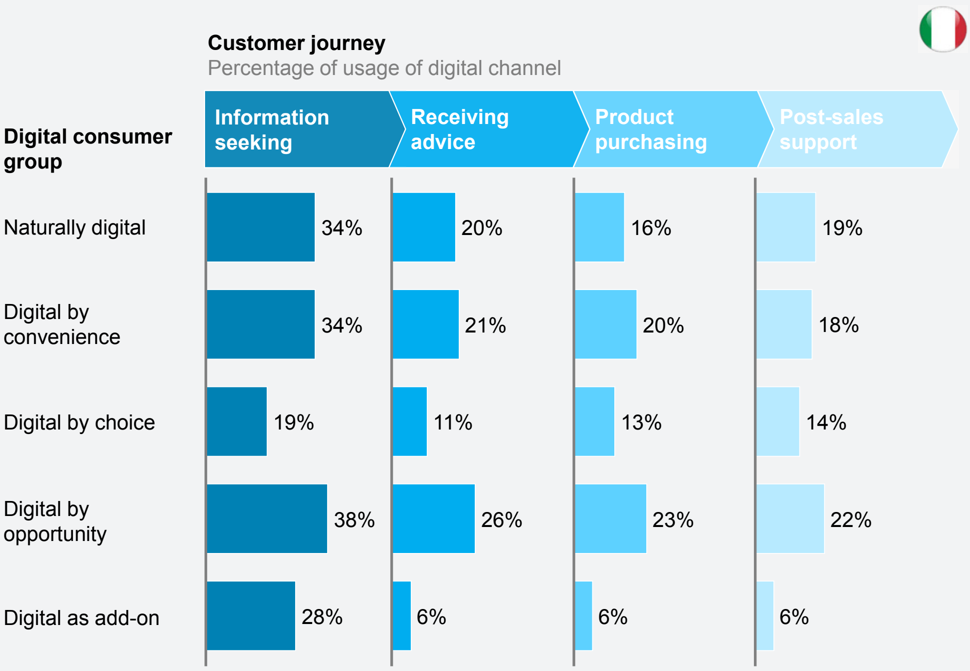
SOURCE: McKinsey Multichannel Survey; World Banking Intelligence

The customer journey

In looking at how digital channels are used in the customer journey, we see that all consumers use these channels most frequently for research and information gathering (Exhibit 4). The overall average usage is 30 percent for this preliminary phase.

Exhibit 4

Usage of digital channels along the customer journey by consumer group



SOURCE: McKinsey Multichannel Survey

As we move along in the journey, some surprises are in store. The "digital by opportunity" group reveals itself as the most consistent user of digital channels over all the phases of the customer journey—from receiving advice, to purchasing, to after-sales support. "Digital by convenience" and "naturally digital" consumers also adhere to digital channels throughout the journey. Together these three categories of consumers share a common attraction to the ease and convenience of the online experience, as they seek the best advice, support and price for the products they need.

The "digital by choice" group, on the other hand, is clearly less engaged. The reason for this may be that these consumers are dissatisfied with the online customer experience and more easily find better products and service in stores and branches. As for the "digital as add-on" consumers, these go online for the research and information phase only, thereafter resorting to traditional channels. Branches, call centers, and ATMs (bancomat) are more familiar and reliable in their view and offer a human touch that digital channels do not provide.

A dedicated survey revealed that while Italian digital behavior changes along the purchasing funnel, Italy still lags behind other European countries in the role of digital channels. The gap between Italy and other Western European countries is more or less constant in the research, sales, and after-sales phases (around 8 percentage points). In the research and information phase, for example, the gap between Italy and these countries is 27 versus 36 percent. The gap with Nordic countries, which usually have the highest online penetration rates in all sectors, is 27 versus 50 percent.

The observed lag underscores the dynamic in which Italian consumers are more disposed to "research online and purchase offline."

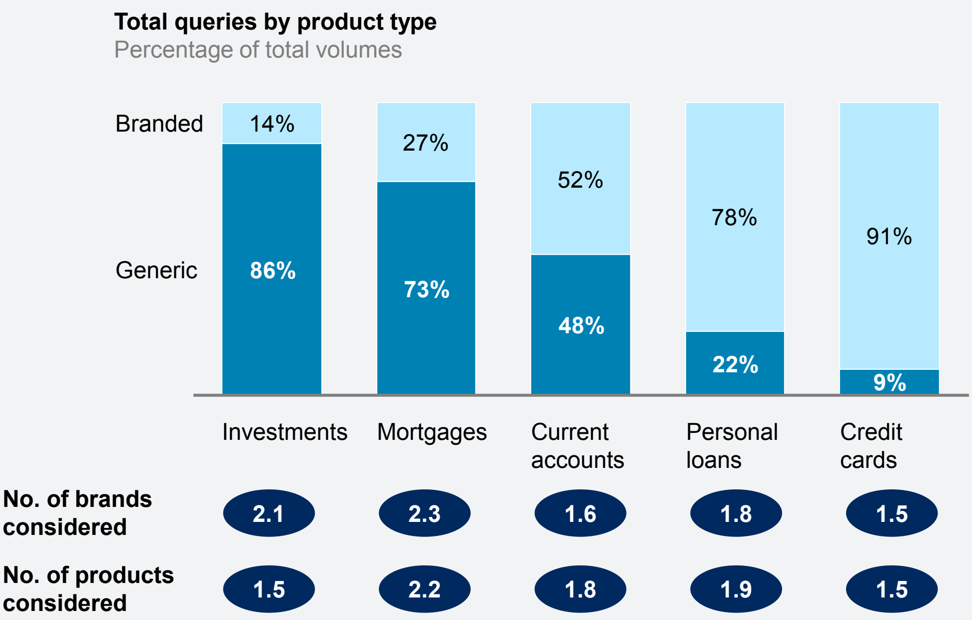
Research and information

In banking, 30 percent of sales are secured with the help of the digital channel, mostly in its role of providing consumers with a platform for research and information about products and services. Banks are therefore justified in devoting a great deal of time and attention to that experience, as it has already become an essential part of their business.

Most online searches for information are initiated to meet specific needs. On financial institution and aggregator websites, consumers seek information on specific products and services. The research process can be complicated and involve a great deal of comparison shopping, repeat visits to websites, and careful scanning of consumer opinions and reviews (Exhibit 5). The resulting decision is then most often pursued in the physical branch.

Exhibit 5

Web searches on banking products by Italian consumers



SOURCE: Google Search Coverage Map; Digital Consumer Knowledge Italy 2015; McKinsey analysis

Our research has also discovered that consumer online behavior changes depending on the financial product considered. For products with high-profile brand identities, like credit cards and investment products, consumers consistently prefer official websites of financial institutions and aggregator sites. For product categories such as mortgages, current accounts, and loans, consumers also visit unofficial sites, including blogs and forums, in their search for broader information on the financial service itself.

Distribution and sales

While the digital channel plays a strong role in the research phase, the conversion rate between information searches and purchase is lower in Italy than in its European peers and about half of the level attained in Nordic countries. Italian consumers use digital channels freely for simpler transactions and payments, but are more conservative when shopping for complex products. Here traditional channels are heavily preferred for the purchase phase. Pure online sales—where the actual purchase is digitally completed—represent only 1.5 percent of the total business in Italian retail banking, compared to an EU-5 average of 15 percent.

This gap could be misinterpreted as evidence of Italian digital reticence, but in truth, underlying the gap is a material difference in bank offerings. Italy is first of all more deeply penetrated by branches than its European peers (521 branches per million inhabitants versus 383 for the European average). The use of branches, especially for finalizing purchases, is therefore more convenient in Italy than elsewhere. A further factor is that the online channels of Italian banks are less developed and rich than those of European peers.

To understand the online behavior of Italian banking consumers adequately, we must take account of the entire online experience, including the crucial research phase and the post-sales phase. Data on the overall impact of the digital channel show that an additional 18 percent of purchasing decisions in Italian banking are made online, even if the transaction is completed in the branch. A further 11 percent of offline purchases are indirectly influenced by the online experience. The overall share of sales influenced by digital channels—"pure" online sales plus the ROPO effect—truly amounts to 30 percent.

After-sales

As discussed in an earlier section, what happens after sales are completed constitutes a critical stage in the consumer journey. The importance of this stage for consumers means that banks must treat it with all due importance. Financial products are infrequently purchased but they have a long service life—often measured in decades. For this reason, once the sale is complete, customers want online access to information and services related to their purchase. The quality of that digital experience will crucially affect the institution's churn rate, cross-selling and upselling opportunities, as well as the number of referrals it receives from its customers.

Not all Italian institutions present a compelling digital offering—one that is aligned with customer expectations and international benchmarks. Institutional websites and apps of Italian banks appear to be insufficiently adapted to the after-sales services customers are looking for. Bank sites draw only 11 percent of total visits by Italians seeking after-sales information and troubleshooting tips; the bulk of the visits (80 percent) are to outside blogs, forums, and social network sites.

The numbers reveal strong demand among Italian banking consumers for after-sales support. Clearly, Italy's financial sector must aspire to create structured, user-friendly, convenient, and richly functional after-sales digital offerings. Best-in-class financial institutions are focusing on digital positioning, investing to ensure that the entire customer journey is fully supported in the digital channel. The optimized online customer experience also lowers costs, while boosting customer propensity to spend online.

The way forward for Italian banks

We interviewed the top executives of leading Italian banks, including those with responsibility for sales and marketing, advertising, and communication. Interviewees revealed that their bank's digital strategy is now a top-management priority. Chief marketing officers stressed that they are moving ahead in creating best-in-class digital offerings, covering the full spectrum of the customer journey.

Budgetary commitments for implementing these digital strategies are growing, along with an awareness that finite resources must be allocated efficiently to achieve maximum revenue and cost impact. Emerging priorities include the creation of a new and better sales channel, across-the-board improvement of the online channel, and enhanced knowledge of consumer preferences and expectations.

Clearly, there is plenty of room for improvement. The potential for pure digital sales, for example, has barely been exploited. Most online channels today are capable only of serving existing customers; new customers generally cannot initiate banking relationships or buy products online. Existing customers, furthermore, can digitally buy or renew only very simple products. The general public can find out about most of the basic products and services offered by Italian banks on their public websites. However, the share of Italian banks that permit their customers to buy or maintain these products and services online is still very small.

To understand how Italians are using online banking, we looked at website and mobile-app interactivity on Italian banking sites along the full customer journey. We compared the Italian data with data from a sampling of European banks, checking for key differences and trends. Here is what we found:

- **Awareness.** The level of penetration and usage of online websites by banking clients is lower for Italian banks than for European banks, by 20 percent. Given this lag it is unsurprising that Italian banks invest much less than European peers in paid searching, by a factor of ten. This underinvestment is both a consequence and a cause of the underpenetration.

- **Consideration.** The sources of traffic for Italian bank websites are evidently more traditional than for European peer sites. The share of Italian consumers finding their way to banking websites directly, through unpaid search results, is 2.5 times higher than for their European peers. These peer banks, meanwhile, enjoy a 50 percent advantage over Italian banks in consumer traffic through referrals and paid search results. European peer banking sites are generally easier to find and navigate than their Italian counterparts, and are also better configured for moving consumers through the funnel to purchase.

- **Purchase.** Italian banks also lag behind in integrating the online and the in-branch experience. This integration is essential for supporting cross-channel purchases, where customers research information online but want to finalize purchases in traditional channels.

- **Loyalty.** Our analysis of social network usage shows that Italian consumers engage with banks at levels commensurate with their European peers (as measured by Facebook activity). However, they receive much less support on these media from their banks, as Italian banks send out many fewer tweets than do European peer institutions.

The main lesson for banks from the analysis of Italian consumer interactivity is that the demand is there—and would be acted on if supported. Italian banks need to invest in creating best-in-class websites, that enable easy onboarding of new customers and maintenance of existing relationships; that provide deep knowledge on product and service categories in addition to specific branded offerings; and that can carry consumers easily through the stages of the purchasing journey—from research to purchase and after-sales support. Finally, and importantly, the website must be part of a seamless multichannel offering, so that when consumers visit branches or contact call centers, their profiles are already fully updated to reflect their most recent online activity.

> Online channels have a crucial role in the customer decision journey, even if purchases are performed offline.

> The high-value customers of tomorrow will expect nothing less than a superior digital experience, seamlessly integrated into their multichannel banking engagement.

The digital bank—a top priority

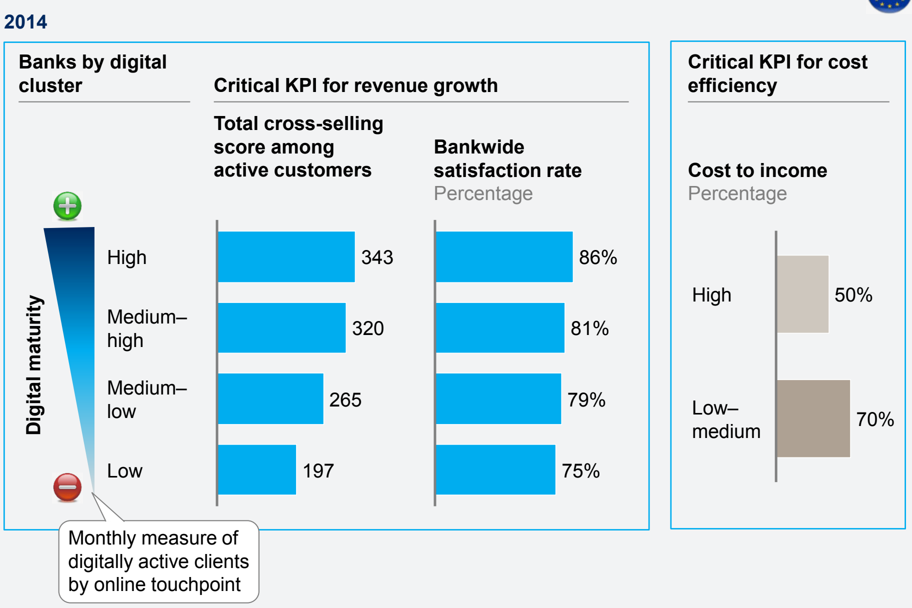
The research clearly shows that the fully integrated digital bank must be a top priority for Italian banks. A best-in-class offering integrated across multiple channels and fully available to digital users will improve overall commercial performance, enable better stock market performance, and make banks more competitive in the face of encroaching financial tech companies.

Achieving better commercial and stock market performance

Banks scoring higher in terms of digitization perform better commercially, have better cross-selling rates, higher levels of customer satisfaction, and better cost-to-income ratios (Exhibit 6).

Exhibit 6

Banks with higher level of digitization show better commercial performance and customer satisfaction



SOURCE: Finalta

Similarly, banks with superior digital presence perform much better on the stock market than do digital laggards: the most highly digitized European banks show price-to-book ratios of 1.5 and price-to-earnings ratios of 29.4, whereas the least digitized banks show ratios of 0.9 and 22.8 in these categories.

Staying competitive in the face of the financial tech challenge

For banks, a best-in-class digital bank has become an imperative in meeting challenges by fast-moving nontraditional competitors, which are proliferating in most of the revenue pools of global banking. In account management, loans and financing, payments, insurance, and investing—all sources of traditional banking revenue—financial technology companies are actively seeking an increasing share of the pie (Exhibit 7).

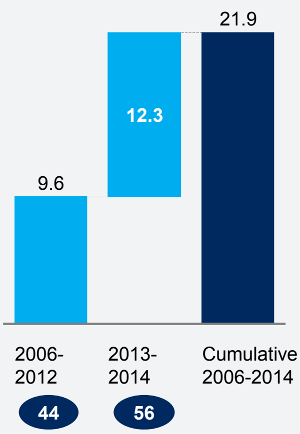
In payments, for example, financial technology companies are quickly entering the market, seeking to expand their massive customer data pools to move up the value chain. Payments volumes on digital platforms are growing much faster than traditional payments channels, with explosive growth in mobile payments.

Exhibit 7

The financial tech company challenge

% Cumulative weight

Financial technology companies: total investment volumes
€ billions



Product category	**Share of financial tech investments** Percentage	**Global banking revenue[1] pool share** Percentage	**Product examples**
Account management	7%	22%	▪ Financial analytics
Loans and financing	44%	42%	▪ Alternative lending (P2P, big data scoring, etc.) ▪ Factoring ▪ Equity crowd funding ▪ Lending portals ▪ Risk valuation
Payments	12%	12%	▪ Online payment aggregators ▪ Mobile wallet ▪ P2P payments ▪ Cross-border transaction solutions
Markets	37%	24%	▪ Investment (stock, mutual fund, etc.) ▪ Term deposits ▪ Insurance products

1 After risk cost.

SOURCE: McKinsey Global Banking Pools; McKinsey Panorama

Meeting rising and evolving customer expectations

To keep and expand their customer base, leading traditional banks have systematically invested in digital banking. Essential steps are to strengthen online offerings and better anticipate and meet the needs of digital consumers. Special emphasis must be placed on creating convenient, reliable, and attractive mobile banking. The full range of products and services, including access to timely advice, must be available "live" online. The bank's entire offering must furthermore be seamlessly integrated across the multiple channels—from website and mobile app to call center and branch. To better address the digital consumer, banks need to develop customer segmentation based on online behavior, since customer value in digital banking will not always align with traditional customer segmentation based on life cycle and asset data.

Digital leaders in other industries—Apple in consumer electronics or Amazon in retail, for example—have powerfully demonstrated the advantages of an integrated multi-platform offering. They have created a superior customer experience by focusing on the client needs along the purchasing journey.

The road ahead for traditional Italian banks goes through best-in-class digital banking. Designing the digital bank that satisfies the expectations of digital consumers is a formidable, transformative goal. Transformations are difficult, but fortunately, the tools for achieving the next-generation banking experience are in place, well understood, and more straightforward than many bankers would think. Most important, the high-value customers of tomorrow will expect nothing less than a superior digital experience, seamlessly integrated into their multichannel banking engagement. If they don't find it at their current bank, they will look for it elsewhere.

About the research

Evolution of the Italian banking customer behaviors in the digital ecosystem is a report produced by McKinsey & Company in cooperation with Google Italy, aimed at assessing the digital behavior of Italian consumers in the banking sector, also through a comparison with evidences from other Western European countries.

This report synthesizes a wider research, which covered in detail a complete spectrum of online behaviors of Italian banking clients, considering both the demand side (customer decision journey, preferences of interaction with banks, usage of online and offline channels), and the offer side (products and services, role of digital channels in the overall bank's value proposition).

Between 2014 and 2015, McKinsey developed an analysis based on several primary data sources, such as McKinsey Multichannel Survey, McKinsey Global Banking Pools, McKinsey Panorama, Google Trends data and Brand Association analysis, and an ad hoc market survey to size the ROPO effect in banking, carried by TNS Italy and commissioned by Google Italy. The market survey was based on 3700 Italian online consumers, interviewed among a representative sample of the Internet population aged 18 years and above (more in: www.thinkwithgoogle.it).

Additionally, the analyses were based on the McKinsey Multichannel Survey, a proprietary McKinsey survey run yearly in major European countries through an online questionnaire.

More than 20 top executives of leading Italian banks have been interviewed, including those with responsibility for Marketing & Sales, Digital, Advertising, and Communication (whose identities are disguised to assure protection of confidential information and strategies). Digital banking performances have measured more than 20 online platforms of Italian and European players, with more than 50 indicators along the following dimensions: online traffic, brand identity, accessibility, navigation, content, product availability, and customization.

About the authors

Henk Broeders is a Senior Partner in the Amsterdam office of McKinsey & Company.
Gabriele Vigo and **Enrico Lucchinetti** are Senior Partners in McKinsey's Milan office, where **Nicola Sandri** is an Associate Principal and **Federico Fumagalli** is a Project Manager.
Giovanni Ciarlariello and **Laura Maida** are respectively Business Unit Director and Industry Head Finance at Google Italy.

Contacts

Henk Broeders
henk_broeders@mckinsey.com

Gabriele Vigo
gabriele_vigo@mckinsey.com

Enrico Lucchinetti
enrico_lucchinetti@mckinsey.com

Nicola Sandri
nicola_sandri@mckinsey.com

Federico Fumagalli
federico_fumagalli@mckinsey.com

Giovanni Ciarlariello
gci@google.com

Laura Maida
lauramaida@google.com

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www.mckinsey.it
www.mckinseydigital.com
@McKinsey_it