

**"What Chinese consumers want from banks
Customers in China seek better service."
Matthias M. Bekier and Kenny Lam
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As foreign and domestic lenders prepare for the opening of China's banking market, in 2007, a survey suggests that domestic institutions might be better placed to defend their market position against foreign entrants than many people believe. Indeed, a consumer bias for personal service could leave many foreign banks ill prepared to compete in China's \$40 billion retail-banking market.

Foreign banks in China are restricted from taking renminbi deposits or from operating more than a handful of branches in major cities. Even after 2007, when deregulation permits foreign lenders to offer services comparable to those of domestic banks, continued restrictions on the number of branches that foreign institutions can open will make it hard for them to close the enormous lead held by China's four largest state-owned banks—each with more than 20,000 branches, on average.

A McKinsey survey² of 844 mass-market and mass-affluent households in China suggests the degree to which these handicaps will impede the progress of foreign banks there. While Chinese consumers indicate some willingness to use foreign banks, their preference for local ones is stronger than ever: 78 percent of respondents say that doing business with local institutions is important to them, up from 66 percent in 1999. To overcome these attitudes, foreign corporations such as Citibank are capitalizing on the long-term relationships customers have with local banks by co-branding credit cards with them.

This is not to say that opportunities are limited for foreign banks, which would be wise to take note of the survey's other principal finding: Chinese consumers clearly want better and more flexible service from banks. Of the 31 potential differentiating factors correlated with choosing and recommending a bank, 4 of the top 5 involve these preferences (Exhibit 1).

The survey's findings seemingly play to the strengths of local banks, which have extensive branch networks and enjoy long-standing customer relationships—a duration of 12 years, on average, in major cities and about 9 years in smaller ones. But local banks aren't capitalizing on opportunities to improve customer service. The survey found, for example, that during the past two years just 1 percent of Chinese consumers had experienced "moment of truth" (a positive or negative interaction altering the way they view their primary financial institution), compared with 13 percent of those surveyed in Indonesia and 40 percent in Thailand (Exhibit 2).

This customer service gap presents an opportunity for foreign banks to target attractive consumer segments, such as China's estimated 2.5 million affluent younger people.³ The survey found that this segment is receptive to personal financial services and products: for instance, only 38 percent of consumers in their 20s, and 40 percent of

those in their 30s, agree that borrowing would "lead to a loss of face," versus 49 percent and 63 percent of consumers in their 40s and 50s, respectively.

These findings have several implications for foreign banks in China. A dearth of Branches may appear to be a handicap, but a clean slate and a strategic approach to Network planning and branch design could be advantageous. (The largest Chinese banks are now reducing the number of branches they operate, in part because poor design and an undesirable location affect a branch's profitability.) Foreign banks might start By expanding into areas—such as Lujiazui or Pudong—with large populations of Affluent young consumers or by focusing on business districts, such as the one near Shanghai's Bund. Some smaller Chinese banks are already pursuing this strategy; indeed, we estimate that 55 percent of one such lender's customer base now consists of young professionals, compared with only 20 percent at a typical large bank.

Younger customers in China also appear open to advice about financial services And products: the survey found that consumers in their 20s and 30s are more willing than their older counterparts to pay for investment advice (Exhibit 3). Foreign banks, with extensive experience in training personal financial advisers and managing customer service centers, will have an advantage over their Chinese competitors.

Product design and pricing is another area where foreign banks might shine. The consumer loans that Chinese banks offer generally aren't tailored to the needs of particular customer segments. Foreign institutions could help bridge this gap by drawing on their extensive knowledge to offer niche lending products. These banks could, for example, create educational loans targeting the thousands of Chinese studying abroad or the growing number of students at the Chinese campuses of international educational institutions. Such loans could include payment holidays (a common feature in developed markets) to ease the burden for those just starting their careers. Foreign banks, which have extensive risk-management experience, can set appropriate prices for such products. Chinese banks are only now trying to build these skills.