World Branch Report 2017

Digital Bank Transformation: The Evolution of Branch Banking

PREVIEW EDITION

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Efma and Synechron are proud to present The World Branch Report 2017, entitled "Digital Branch Transformation – The Evolution of Branch Banking." Together, we surveyed c-level bankers from across the globe in order to examine the role bank branches play in the current digital era and in a time of mobile-first thinking, and gathered insight into where branch banking is trending.

This report was focused around four key areas:

The Market:

What is the current state of the bank branch?

Business:

Where within the branch are banks investing?

Technology:

How can cutting-edge technology disrupt the branch model, and what innovations do banks deem viable?

Operations:

What role will people play in the branch of the future?

In examining the broader market challenges, business considerations, technology decisions and the role of personnel in the bank branch, it is our belief that the resulting data offers valuable insights into how the retail banking industry is addressing physical distribution, and the impact of digital convergence in shaping the future of customer experience in the branch. Ultimately, these insights should help guide banks as they embrace change, and embark on their own next-generation, bank branch initiatives.

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MOBILE BANKING
Current Account
$42,856.63
MOVEMENTS
cactus RL store online
cash withdrawal
invoice
electric company SL
cash withdrawal
-$98.58
-$100.00
-$34.28
-$45.46
Personal Loan
$2,856.63
Mobile Payments
$1,217.67
Credit Card
$1,000.00
Savings
$1,234.53
Earnings last month
$2,257.57

The Future of the Bank Branch is Bright

The branch channel has been the primary foundation of consumer and business banking for centuries, but as FinTech disruption and a digital-first mindset have spearheaded a cultural change in everyday banking over the past few years, many banks globally are questioning the business value and operating model for brick and mortar services to their customers.

According to the Federal Deposit Insurance Corporation, Chase reduced its branch presence by 190 locations, a 3.4 percent decline, from 2012 to 2016. Bank of America closed 243 branches (16 percent) in that period and Citi closed 302 (28.5 percent). In the U.S., Wells Fargo announced in July 2017 it would close 450 branches, and similarly in the UK, HSBC confirmed it would close 62 branches in 2017, and Lloyds Bank 100 branches. The World Bank noted similar trends between 2012 and 2015, particularly in European Union countries (down 17 percent), notably led by Spain (19 percent), the Netherlands (29 percent), and Italy (12 percent), with each seeing significant reductions in the years since.

The trend is clear. Banks are, indeed, consolidating their branch network footprint due to escalating operating costs and other factors, but it would be misleading to suggest that banks closing branches means the bank branch is dead.

To the contrary, at the same time banks are closing branches, they are also re-imagining the branch model, and in many cases opening new branches powered with innovative digital solutions that provide unique customer services never available before.

In a global survey of senior bank decision-makers conducted by the Efma and Synechron, a leading Digital, Business Consulting, and IT Services firm, that is exactly the conclusion reached. Respondents answered a series of questions across four key areas:

- Market perception of branch value
- Key areas of branch-related investment
- The technology inside the branch
- The role of people at branches

Based on the responses, the future of the bank branch is bright – at least for now.

Market perception of branch value

Most importantly we wanted to understand the future potential for the bank branch, and the current market perception around the present and future value the branch can offer. The study also examined the top service lines supported by the branch physical distribution network. It then went on to a readiness assessment which reviewed participants' current state on the digital branch transformation spectrum and where they saw the most opportunity for branch transformation.

The survey found that most banks agree that the bank branch is still highly valuable for customer acquisition, brand awareness, cash management, and cross-sell opportunities, and they're planning to further invest in branches.

- 88% either strongly agreed or agreed with the statement Bank Branches add value to my customers. Interestingly, no one outright disagreed with the statement.
- Branches provide the most value related to customer acquisition, brand awareness, traditional services like cash management and as a means to cross-sell and up-sell.
- While there are still mixed opinions on how to rethink the branch distribution model, the number one answer at 39% was that respondents plan to decrease their branch network but invest in changing the branch model. After that, the next most popular answer was 24% who instead plan to increase their branch network and invest in changing the branch model. This means that 63% plan to change their branch model with the difference being whether they increase or decrease the number of branches While doing so.
- 63% have developed a future branch or prototype, or are building or conceptualizing one; while only 8% had no plans to do so. 20% of those total respondents are already planning to roll the future branch out as a standard.
- Branches were scored better than digital-only channels for providing specialist advisory services, the most convenient for developing relationships and the most appropriate for supporting small to medium cash business.

Key areas of investment

After validating that global banks still see present and future value in the bank branch model, the survey looked at key areas of investment related to the bank branch including how much of their operating cost is attributed to the branch network, anticipated budgets over the next 12 months, which bank executives are sponsoring and driving branch transformation, and what is considered during the process.

The research reaffirmed that branches still have high overhead costs which need to be addressed, but interestingly, Retail or Consumer Bankers are predominantly looking at how digital transformation can be used to improve the customer

The Future of the Bank Branch is Bright

experience/engagement and evolve the role of their branch staff, rather than operating cost and reducing FTEs being the motive for investment.

- 30% said 51-70% of their costs come from the branch network and 26% said 25-50% does.
- Branch transformation budgets are split, but the leading range is 15-24%.
- 58% of banks have tasked their Retail / Consumer Banking Group with Branch Transformation and 24% have raised it up to the Board/CEO. Only 6% have placed this within their Digital team and only 6% within Marketing.
- The top focus area for branch transformation is to improve customer service/engagement (42% identified this as a priority) and evolve the role of branch staff (40%). This, however, is followed closely by introducing digital interactive experiences (38%) and self-service automated technologies (36%).
- Surprisingly yet overwhelmingly, 40% of firms want their branch to communicate "We are a traditional, trusted and secure financial institution." The next most popular answer after that was that their branches "provide community and collaboration" (26%).

The technology inside the branch

After determining that banks are still planning to invest heavily in their branch model, they'll need to decide where to make that investment count the most. The next set of questions examined the top technologies to invest in within the branch to support business goals related to areas like self-service, video chat, gamification, and other emerging technologies.

In this area, respondents cite that the top technologies being looked at to improve self-service, staff support and to appear cutting-edge are respectively, Cash-in / Cash-out and check deposits, Tablets with CRM, and touch screens (including walls, tables and tablets).

- Overwhelmingly 83% of respondents say Cash-in / Cash-out and check deposits is the most effective self-service function in a bank branch.
- The most popular use case for video chat within the branch is specialist advisory services.
- Tablets with real-time CRM and digital experiences to assist sales/advance are the top technologies being looked at to aid bank staff.
- The top two uses for Gamification are edu-tainment about products and services (38%) and entertainment while waiting (27%).
- The largest % of respondents say that touch screen devices (walls, tables, and tablets) make the digital branch appear the most cutting-edge over all other technologies.

The role of people

While technology will undoubtedly play a key role in the branch of the future, it will also be critical for businesses to think about how staff are leveraged in the bank branch of the future, particularly those enhanced by digital solutions. The survey examined what the role of people should be in the branch of the future, humanless branches, people potentially being involved in credit decisions, plans around hiring / headcount reduction, and what uniquely human qualities add the most value in the bank branch.

The analysis found there will likely still need to be a role for people in the branch of the future, but it will be a smaller role than today focused on bringing an emotional or relationship connection to the branch.

- The top areas where people can add value in the branch are advisory (73%), sales (70%), customer service (51%), and as a universal banker (41%).
- Opinions on how people are used to support credit decisions vary greatly with 38% saying credit decisions are best managed in a centralized model, 35% saying credit decisions are best handled by branch staff, in a decentralized mode, and 30% saying credit decisions should be made entirely by technology or AI.
- 62% plan to reduce overall digital headcount across bank branches; however, at the same time, 97% said only people could bring an emotional connection to the branch.
- In addition to providing an emotional experience, branch staff also bring more personalized experiences (76%) and the opportunity to build a trust-based relationship (62%).

The Efma-Synechron survey overall found that banks globally agree that the branch is still an incredibly valuable channel. Many of them are rethinking their current branch model to incorporate digital elements that will allow them to deliver more value through the branch at a lower operating cost. The top strategic focus area currently is to improve customer engagement, and therefore customer experience is at the center of the bank branch digital strategy, particularly when selecting technology solutions and the overall ambience of the branch interior design. This will mean offering Check and Cash Deposit for effective self-service features and embracing technologies like video chat to empower remote specialist advisors to deliver a 24/7 customer experience. That being said, these technologies also become enablers for the staff in the bank to provide improved and personalized customer experiences while still maintaining an emotional connection with the customer.

The Future of the Bank Branch is Bright

Branch Consolidation

Banks continue to consolidate their branches globally.

Technology

83%
Cite cash-in/out and check deposit as top branch tech spend

Investment

58%
Tasked with Branch Transformation have a Retail / Consumer Banking Title

Branch Value

88%
Said the Branch adds Value with top value adds:

- Customer acquisition
- Cash management
- Cross/upsell

Branch re-imagination

However, at the same time banks are investing in re-imagining the branch.

People

People add emotion and trust to the branch experience

Customer engagement and experience must be at the center of the branch strategy.

To Branch or not to Branch.... is that the right question?

David Horton, Head of Innovation, Synechron

The quest to justify banking's oldest distribution channel continues despite the wonders of self-service automated kiosks and the growing adoption of mobile banking. The arguments for and against branch banking are well publicized these days, and yet we continue to debate the subject year after year.

On one hand, we have the argument that the branch is an expensive operating expenditure that does little to meet the expectations of the millennial customer and has been made redundant by superior and contextual advice through mobile apps. Teller per transaction costs are increasing, and people are using more convenient ways to conduct their everyday banking needs. Remote check deposit, self-service kiosks, smart ATMs, digital channel migration and video chat bankers are all gunning the traditional branch model down. All the logic, statistics and key performance indicators about branch banking suggest that its days should be numbered.

On the other hand, there are those that say it doesn't matter how good your mobile solution is, when you REALLY REALLY need to do something of importance that concerns your financial wellbeing, you want to do it in person, and in a branch - period! While the digitization of banking is creating disruption in the industry, it is still not executed to a level needed to displace the branch value proposition. Customers with complaints, or in need of specialist advice like retirement planning, or their first mortgage, still want to visit the branch and speak with a trusted advisor. Some customers, particularly small business owners, still want to establish a relationship with the branch manager because there is more to their financial situation and needs than what an automated decisioning solution can compute. Others want to just open a basic checking account in a single branch visit and walk away with a debit card, check book and active account number in a few minutes. Oh and what about the brand?..... the branch still represents something tangible, something real, and when you are talking about an industry that sells 'trust,' people want a place they know their money is safe. All the logics, statistics and key indicators about branch banking suggest it is here to stay.

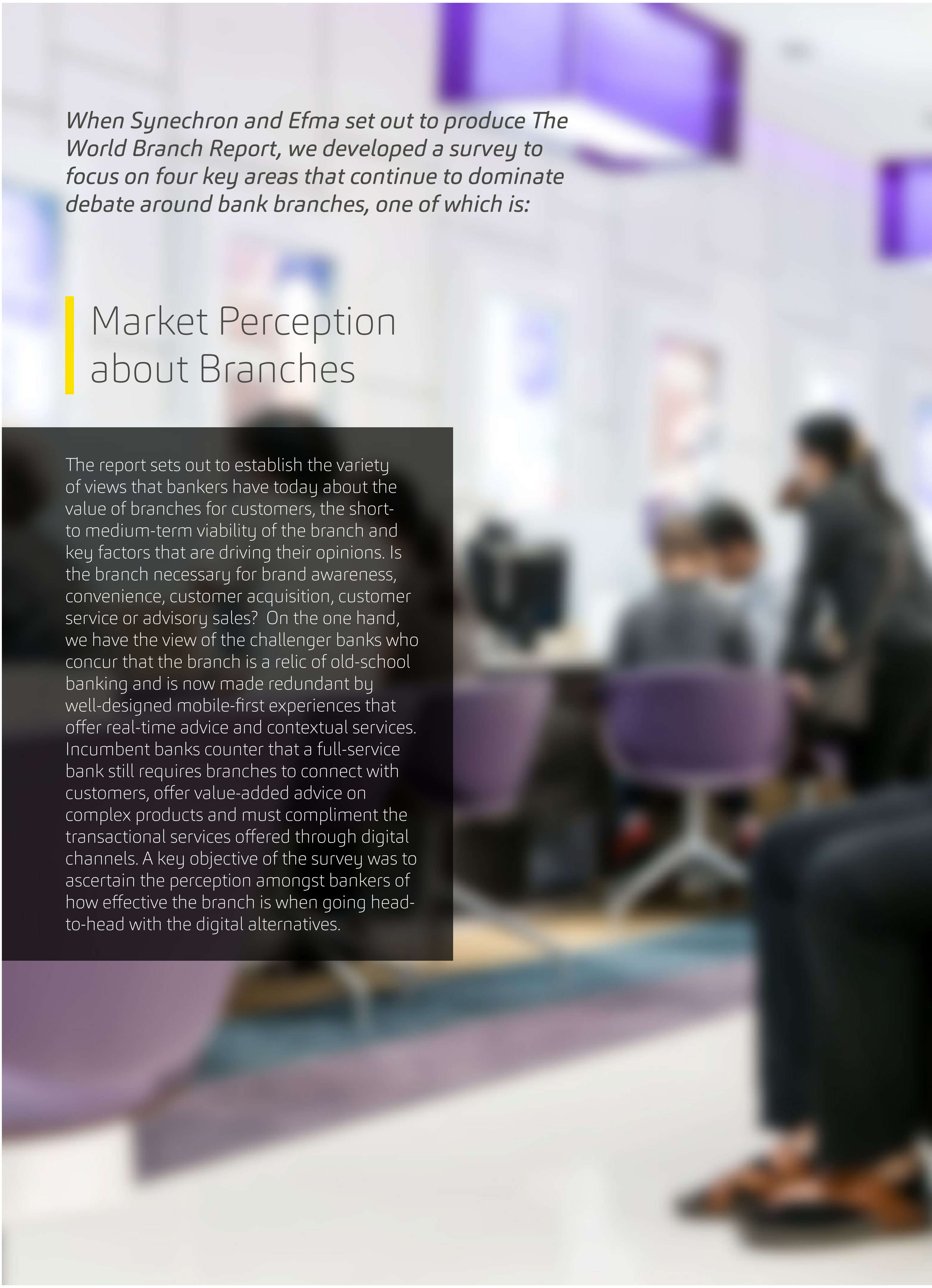
It is difficult to argue with either viewpoint, but perhaps the question should not be whether we should have branches or not, but rather what should be happening in the branch. Let's for one minute consider what Branch 2.0 could be.

For someone who has done a considerable amount of digital branch transformations for several banks across the globe, I am often questioning what could and should be done differently in the branch. It is obvious that the role of the traditional teller must change, and there are many new technologies from beacons, to touch screen tablets and walls, and natural language Artificial Intelligence that can transform the engagement and interaction levels with customers, but this is still not enough. There are even great solutions for addressing the cost of running a branch these days, like partnering with another retail business like a coffee shop, health bar, post office or supermarket chain. Making the branch a 'destination of choice', is gradually becoming a reality for many evolving banks, and the days of the Barista Relationship Manager could soon be upon us. That said, even that is not enough of a compelling reason to ensure branch survival. For me, I have come to the same conclusion every time.... it's about people. It's about relationships, local knowledge, body language, smiling, being polite and generally trying to help customers that makes all the difference. No amount of technology transformation and digital alternatives can compete with empowered and motivated branch staff.

My benchmark has been, and continues to be, Handelsbanken in the UK. Not only is their slogan "The Bank is the Branch".... but they literally mean it. Don't get me wrong, this is a bank that continues to invest in digitization and equipping their branches with usable technology, but more importantly they are doing something fundamentally different. The branch staff have a say in decisions about their customers. Can you imagine such a thing? The problem with most banks these days is that in their quest to become cost efficient, they have centralized operations, KYC and the risk assessment process, and that means the decision makers sit nowhere near the customer. They are most likely sitting in the head Office, back office or offshore office, and they are not incentivized to keep customers happy, or increase revenue. The centralized team's performance (and ultimately their bonus) is measured with KPIs like compliance, cost savings, and not approving a customer who defaults. The sad fact of the matter is that Risk in most banks these days is often measured when it goes wrong, and very rarely when it goes right. That means that it is much easier to say no to a credit application, and devise a myriad of risk policies to support your decision. I am willing to bet that in most banks where this is the case, they will have a revenue growth curve that correlates directly to the amount of risk exceptions or policy revisions for that year.

This is where Handelsbanken does things a little differently. When customers discuss financing or account opening with the branch manager, that manager has a substantial say in what decision gets taken. It is no surprise that the bank continues to win customer service awards year after year and has enviable numbers when it comes to the quality of its credit decisions.

There it is.... the answer to what Branch 2.0 should be, is not what services and advice can be served through paperless solutions and digital channels, but rather that customer delight is best achieved when you hand the power to serve the customer back to those sitting in front of the customer. Now there is a branch transformation objective that should get bankers thinking, and one that could be more disruptive than any fintech unicorn, if executed flawlessly.



When Synechron and Efma set out to produce The World Branch Report, we developed a survey to focus on four key areas that continue to dominate debate around bank branches, one of which is:

Market Perception about Branches

The report sets out to establish the variety of views that bankers have today about the value of branches for customers, the short- to medium-term viability of the branch and key factors that are driving their opinions. Is the branch necessary for brand awareness, convenience, customer acquisition, customer service or advisory sales? On the one hand, we have the view of the challenger banks who concur that the branch is a relic of old-school banking and is now made redundant by well-designed mobile-first experiences that offer real-time advice and contextual services. Incumbent banks counter that a full-service bank still requires branches to connect with customers, offer value-added advice on complex products and must compliment the transactional services offered through digital channels. A key objective of the survey was to ascertain the perception amongst bankers of how effective the branch is when going head-to-head with the digital alternatives.

About the Authors

Synechron
Digital / Business Consulting / Technology

Synechron is a global consulting and technology organization providing innovative solutions to the financial services industry through its three main business focus areas: digital, business consulting, and technology. Based in New York, the company has 18 offices around the globe, with over 8,000 employees producing over $500M in annual revenue. For more information on the Company please visit

www.synechron.com

Efma

As a global not-for-profit organization, Efma brings together more than 3,300 retail financial services companies from more than 130 countries. With a membership base of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, online communities, and international meetings. For more information, visit

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