

P E R S P E C T I V E

Reinventing Retail Branch
Banking for the Future



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Introduction

Branch banking is at a crossroads. Although it is still the single largest mode of banking, the proportion of branch transactions to the total is falling thanks to the rising popularity of channels like the Internet and mobile, which are quicker to use, easier to reach and are always open. On their part, banks are vigorously encouraging customers to migrate routine transactions away from the branch to self-service channels, because they cost far less to support.

That being said, the branch is still the first choice for some customers and certain types of transactions. Senior citizens are generally more comfortable with face-to-face in-branch interaction, and less with self-service technology. Moreover, they draw confidence from the physical environment of the branch.

Even young customers, who regularly use alternative channels for routine transactions, prefer to conduct complex or high value business within the branch, in consultation with an advisor.

This explains why, despite the emergence of other channels, the branch has held its own, and as per a recent survey, even expanded in number by 10% over the last decade. Another study predicts that branch technology will account for a significant proportion of banks' IT investment over the next few years – this can be taken as a reflection of the industry's belief in the channel.

So, it is clear that retail branch banking will not go away anytime soon. It is equally clear that it needs to change in order to stay relevant. But there are many questions about its future:

What role will the branch play in an environment dominated by newer channels? How will the branch drive growth? What will the footprint of the future branch look like? What role will technology play in its progress?

Major Challenges of Retail Branch Banking

A look at the major challenges of retail branch banking may provide some answers.

Tough market conditions arising from the financial crisis have brought the banking industry's focus

back to efficiency. At the same time, advances in Internet and Communication Technology have completely redefined consumers' expectations of service, convenience, choice, and quality of experience. In its traditional form, branch banking suffers on both counts: It is the most expensive channel by far, and its service delivery is hampered, among other things, by the size of the network, hours of operation, a usually high workload and limited human resources.

While transforming the traditional branch to a modern format and enlarging its scope of activity to make it more relevant seems an obvious course of action, it's easier said than done. Considerations of cost and business disruption stand in the way. The break-even dynamics are tricky to manage: The time taken to recover the investment depends on a host of factors and varies from branch to branch. Studies across several developed and emerging markets indicate 12 to 15 months as the benchmark, achieved by well-run banks offering the widest range of services. However, in the case of micro branches or those located in fringe markets, break-even could take as long as 5 years. This challenge is compounded by bank managements' self-imposed target of a 6 to 8 month break-even.

Staffing poses another problem. First, banks must allocate optimal human resources – carrying the required expertise and experience – for various roles. Finding the right people is the harder part. Around the world, banks are staring at a talent shortage. In the United States for instance, banks are facing the consequences of training cutbacks, and the failure to provide employees cross-functional exposure. A study conducted in 2008 by a global consulting firm predicted that by 2013, European banks could struggle to fill between 25 and 40% of key positions.

So far, branches have mainly enacted a transaction-fulfillment role, remaining isolated from the banks' sales and merchandising efforts. For this reason, they have not been able to spread enough awareness about their full range of offerings within the customer community.

Reinvention of Branch Banking

From the above, it is clear that in order to sustain, branches must transform their cost

structures and processes, and play a greater role in promotion. Given below are some ways in which banks can reinvent branch banking.

By Focusing on Generation Y

Generation Y customers rarely visit the branch, preferring to conduct most of their activities online or over the mobile phone. However, once they mature into their 30s, their financial needs will go up significantly as they look to buy a home, make various investments, and provide for the family.

And this is where branches have an opportunity.

According to a 2009 survey by the National Foundation for Credit Counseling, nearly half of the worldwide Generation Y population lacks financial literacy and has little understanding of how to budget and save efficiently. Therefore, it is very likely that many Gen Y customers will feel the need to consult their bank advisor while making important financial decisions, which will drive them to the branch. By proactively reaching out to younger customers and strengthening the advisory capability of their branches, banks can attract business from existing and new customers in future.

By Increasing the Quality of Customer Interaction

Banks have leveraged technology to simplify, standardize, automate and centralize their operations en route to creating a one-stop branch. In doing so, they have managed to reduce transaction processing time and paperwork and greatly improve the in-branch experience. But they could do a lot more in future.

Today, branch staff are only trained in and assigned to specific responsibilities, which not only limits their personal growth but also increases the time that customers must wait before a specific staff member becomes available. If branch employees could be given cross-functional training, spanning operations, sales and service, it could noticeably improve productivity and quality of service. In fact, Umpqua Bank's flat branch hierarchy of a single manager and "universal associates" follows exactly this concept.

Cross-functional training could be imparted in several ways – by rotating people on the job; getting employees with diverse specializations to work within a team; providing social platforms, such as blogs and wikis to facilitate knowledge sharing; and of course, delivering formal lessons in a classroom environment.

By Leveraging Technology

Banks are already highly technology driven. They must continue to stay at the leading edge of technology in order to satisfy the expectations of future tech-savvy customers. Using new technologies, including advanced mobility and social media, banks must construct a new image for their branches, improve product communication to customers, increase productivity and reach, and above all enhance customer service and experience.

Through Multi-line Branch Banking

Despite establishing branches in high traffic urban markets, retail banks rarely manage to tap their full potential. Their transaction-oriented approach is undoubtedly a factor. The future could belong to the multi-line branch, one that is part of a full system of banking comprising all services and all modes of delivery. The focus of the multi-line branch will be to right sell, rather than achieve transaction volumes, and it will do so by ensuring that the best suited products – be it loans, payments, financial advice, brokerage services, investments or insurance – are made available to each customer. Naturally, providing cross-product/functional training to full branch time staff will be imperative for such a model to succeed.

Through Network Management

In a lot of markets, there are several customers with high value needs, albeit not in sufficient quantity to justify an elaborate physical branch network. In these places, a thin network of attractive branches backed by a strong network of ATMs might be able to achieve a high level of efficiency and also manage to adequately serve customers. The branches will need to focus on drawing incoming traffic and capitalizing on each customer interaction to generate cross sales. In

this way, banks can rewrite their branch strategy, and rather than building the most number of outlets, create just the right number, with the right capabilities, in each market.

Conclusion

While the adoption of multichannel banking and cost advantage of self-service channels has eroded the dominance of bank branches, it would be a mistake for banks not to focus on them. Branch banking is still the heart of the retail banking experience. The need of the hour is a comprehensive review of branch needs along with informed and systematic action.

By adopting some or a combination of the measures described in this paper before their competitors do, banks can differentiate their branches. At the same time, they need to remain lean organizations in order to maintain peak performance, especially during economic downturn. Rather than expand relentlessly, banks must maintain optimal branch density

for a particular market and align sales and service capacity with market opportunity.

Given these ministrations, the heart of retail banking will continue to beat strongly.

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Author

Saraswat Sarkar

Associate Consultant - Finacle
Infosys Limited



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PERSPECTIVE

Universal Banking Solution | System Integration | Consulting | Business Process Outsourcing

Infosys Limited

Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India
Tel.: + 91 80 28520261, Fax: + 91 80 28521747, e-mail: finacleweb@infosys.com
www.infosys.com/finacle

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