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Reality Check: Getting Past the Hype Around Branch Transformation

The Top Seven Concepts for Getting Transformation Done Successfully

Introduction

In the last few years, a lot has been said about the need for financial institutions to rethink their branch strategies. Institutions of all sizes, including banks and credit unions, recognize that they need to get more out of their branches. From investor presentations to news articles, financial institutions' spokespeople are highlighting their transformation efforts.

Transformations are occurring because traditional branches can be expensive and inefficient. *The Wall Street Journal* reported that as many as one-third of branches may be unprofitable. Additionally, according to research conducted by Accenture, branches are expensive to build (costing an average of $2 million for a new branch) and maintain — with the top 25 banks spending $50 billion to maintain 43,000 branches nationwide. Accenture also noted that the cost of branch transactions is relatively high, and as an example, it is 95 percent cheaper to process deposits digitally than through a teller.[i]

Some of the largest banks, such as JPMorgan Chase, have been transforming their delivery models. According to *Bank Systems & Technology*, Chase is aiming to "optimize the branch network with smaller branches (2,500 to 3,000 square feet versus an average 4,400) and less density. The Chase branch network of the future will be more efficient, automated and consultative," with fewer transactional staff (two tellers per branch compared to what historically has been four).[ii]

Another reason why banks are starting to transform branches is that branches are an important touch point for consumers, and simply closing them is not always the best option. A recent McKinsey & Company report, "The Future of US Retail-Banking Distribution," noted that "while customers have embraced multichannel access, they also expect higher-value face-to-face interactions at their bank branch."[iii]

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Another crucial factor in branch success is convenience as having locations close to where customers live or work can provide significant competitive advantage. Closing branches in order to save costs can backfire: about half of those surveyed by Accenture said that they would be induced to switch banks based on the closure of nearby branches.[iv]

Finally, transformation could make a tremendous difference in the financial health of the institutions. The McKinsey paper notes, "Retail banks that act now to migrate to digital channels, transform their physical distribution networks and revamp their go-to-market strategies, can significantly improve their efficiency ratios."

i. Accenture. Accenture Retail Banking Survey 2013: Banking in the Digital Era. 29 Oct. 2013. Study.
ii. Burger, Kathy. "Embracing Digital: JPMorgan Chase Rethinks Delivery I Bank Systems & Technology."
Bank Systems & Technology. UBM Tech, 3 Mar. 2014. Web. 18 Sept. 2014.
iii. Bollard, Albert, Neel Doshi, and Marukel Nunez Maxwell. "The Future of US Retail-banking Distribution." McKinsey Insights Aug. 2014: 1. Web.
iv. Accenture. Accenture Retail Banking Survey 2013: Banking in the Digital Era. 29 Oct. 2013. Study.Lextant. Hyosung Lextant Study. N.d. Study.

Closing branches, in order to save costs, can backfire: about half of those surveyed by Accenture said that they would be induced to switch banks based on the closure of nearby branches.

According to the paper, introducing new branch formats with smaller footprints would have an impact of over one percentage point. Other improvements in the efficiency ratio could be gained by greater use of digital channels and adoption of online bill pay and online-only statements.

So it is clear that institutions need to transform branches to make them more cost-effective, while serving crucial customer needs. The question is how to transform in order to reduce the expense of the branch model, while keeping up with rapidly evolving consumer demands. What we have seen is that while many institutions have embraced transformation, some are falling behind.

Branch transformation: what you need to know to succeed

There is plenty of information available on branch transformation, both from experts and from the institutions themselves. At Hyosung, we have seen transformations first hand, and we have developed the Top Seven Strategies for Success based on our experience working with institutions. This checklist can help institutions as they are implementing their transformation strategies.

1: Create a positive self-service experience

A good guide to the strategy for branch transformation is a close look at how consumers act in the branch and what customer actions say about how branches should transform. A recent study of bank customer behavior by Lextant looked at the reasons why customers decided to go to a teller rather than an ATM and revealed a lot about what customers could want from self-service options.

The findings revealed that customers identified their preference for services that are fast, easy and executed in a way that is personal and professional.[v] Combined, these factors create confidence in customers and thus a positive experience.

After transformation, self-service options must be:

- **Fast:** immediately available and ready to perform transactions or provide needed services.
- **Easy:** something that involves minimal mental and physical effort on their part. The impetus towards an easy solution may be one of the reasons why some customers prefer tellers to ATMs or other automated options, since "learning the machine," could be perceived as a hassle.
- **Secure:** security for customer transactions is important in any setting. In transformed branches, physical improvements such as providing ample personal space, with well-considered buffer zones, provides the privacy needed by customers.

v. Lextant. Hyosung Lextant Study. N.d. Study

In the context of branch transformation, including the automation of services, these results reveal that customers must be confident in the self-service options in order to make the switch from teller transactions.

2: Develop a holistic approach: integrate people, process, and technology

It is clear that bank transformation is more than implementing new technologies. While technology can solve a lot of problems faced by the branches, human interaction at the bank branch continues to be vitally important. A recent McKinsey & Company study, "Retail Banking Insights," explains that even customers who use mobile and online banking value face-to-face interactions at the branch. The study stated: "Customers who use mobile and online banking more than once a week are 60 percent more likely to be retail branch users than those who do not. So while customers have embraced multichannel access, they also expect higher-value, face-to-face interactions at their bank branch."[vi]

Bank of America, which has implemented some widely publicized transformations, highlighted the need for people in the branch in a recent story in *USA Today*. Face-to-face interactions are a key part of what Bank of America is trying to accomplish, and the article notes that trust "requires a human element."

The bank currently has 6,500 specialists — financial advisers, mortgage loan officers and small-business bankers — staffing its branches and phone lines and hopes to have 7,800 available by the end of the year.

The article quotes a bank spokesperson on the new branches saying: "This is a place you can come to get financial information from a human being face-to-face."

Ultimately, well-trained people and best practice processes will help branches leverage their new transformation technologies even further.

3: Understand volume challenges: moving transactions away from the tellers

While branch transactions have decreased overall, they have not totally gone away. For example, according to the Federal Reserve Bank of San Francisco, banks and credit unions still handle cash and 12 percent of cash withdrawals still occur within the branches and through teller lines.

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Many credit unions and bank branches still rely on manually counting cash for those teller transactions, and tellers spend the majority of their time counting cash versus utilizing their time to interact with customers.[vii]

Thus, the need to migrate a large volume of transactions to self-service is greater than ever. The question is: how can traditional teller transactions, such as deposits, cashed checks or business transactions,

vi. Bollard, Albert, Neel Doshi, and Marukel Nunez Maxwell. "The Future of US Retail-banking Distribution." McKinsey Insights Aug. 2014: 1. Web.
vii. Cheng, Eric. "Trends in Retail Cash Automation: A Market Overview of Retail Cash Handling Technologies." Federal Reserve Bank San Francisco. Federal Reserve Bank of San Francisco, 14 Mar. 2014. Web. 18 Sept. 2014.

be seamlessly migrated so that customers are confident in the bank's automated options?

In order to move these transactions away from the teller line, people must feel confident. This means helping them understand that these new devices actually provide a better experience overall when used to self-serve and complete transactions. Consumers will need help initially understanding the capabilities of any new devices and how they can be used, from splitting a deposit across several accounts to selecting the currency denominations when withdrawing cash. The confidence that they can successfully self-serve their transactions, together with a more pleasant relationship-building experience, has shown it is possible to grow the use of this technology and move volume away from the teller.

4: Develop ROI: understand the data needed for transformation strategy

Assigning values to the costs of branch operations is crucial for understanding how institutions can leverage and benefit from transformation. So, for example, large branches with greater square footage can generally reduce costs by shrinking the physical size of the branch. Other factors to consider when calculating ROI include the costs of transitioning headcount from teller stations to consultants and salespeople

Lastly, transaction costs overall have become increasingly expensive and have doubled in the last 20 years.[viii] Understanding those costs is also crucial for ROI calculations. Additionally, branches should consider the potential for greater sales, once the human capital at the location is freed up from mundane tasks, such as counting cash or other back-office processes. In almost all of the big transformations taking place, the institutions are looking to add value to the customer experience and ultimately encourage the customers to buy more products and services, thus increasing the profitability of local branches.

In sum, accounting for reductions in costs, while understanding the potential upside, can contribute to the overall picture of the ROI from bank transformation.

5: Align transformation with institution and branch business goals

Effective branch transformations, including automating certain customer transactions, must be in line with the business goals of the institution and the data that supports those goals. For example, one goal of transformation is to have customer and member relationship employees free to interact with branch visitors and cross-sell products. Determining which products can be supported automatically, versus which should be supported by tellers, could depend on the mix of customers, geography or even competitive factors. Effective branch transformation strategies could include a wide variety of formats, depending on the local customer base. Ultimately, the integration of people, process and technology will allow for varying size branch formats and improve ROI, while maintaining or improving current customer service levels.

viii. "Poof! Branch Transactions Drop By Half in 20 Years." The Financial Brand Marketing Insights for Banks Credit Unions. The Financial Brand, 28 May 2013. Web. 18 Sept. 2014.

6: Learn from the past

In the early 2000s, Washington Mutual, Inc. (WaMu) launched an early transformation initiative through its Occasio branches. The branches were described in a company press release as "setting a new standard in retail banking by combining WaMu's proven sales and service culture with a contemporary retail look and feel," and "uniting our customer friendly service with innovative technology and design elements…." The company explained that Occasio represented "a holistic approach that incorporates a myriad of enhancements that are based on what customers told us they wanted."[ix]

WaMu's demise notwithstanding, the Occasio branches received mixed reviews. When the branches were closed, Jeffry Pilcher, president of ICONiQ, a financial brand consultancy, told *American Banker* that as far as it went, the Occasio design made sense, since WaMu's goal at the time was to gather deposits for its mortgage arm. Likewise, it is a mistake to characterize WaMu's branch design as a failure because the bank failed. "People get the wrong idea that [branch transformation] is some kind of cosmetic thing; there's a strategy behind it" he said.[x]

So, the Occasio experience does hold lessons of value for today's branch transformation professionals. Additionally, the fact that these branches did not succeed is not a good reason not to move forward now, but it is worth looking at how this initiative succeeded and where it could have done better.

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7: Take a strategic approach

Within the bank, discussions of branch transformation can include a wide array of professionals from various divisions, including Retail Distribution, ATM Business Delivery and Kiosk Strategy, E-Commerce and Mobile Delivery and Operations — all of which have different responsibilities and views on what works as well as responsibilities for saving costs. This group of professionals will continue to rise to the forefront, as the importance of bank branches is reconfirmed by the banks.

Additionally, banks and credit unions have begun their transformation strategies and are making headway, although they may find it difficult to act quickly. A number of factors are contributing to some of the difficulties faced by transformation professionals, including a concern about costs as well as the necessity for a large number of decision makers to come to the table and provide their input on the goals and strategy for transformation.

ix. "Washington Mutual Announces Plans for Retail Banking Concept in Greater New York; ``Occasio" Unlike Anything Metro Area Has Ever Seen." Washington Mutual. JPMorgan Chase Bank, 14 Apr. 2002. Web. 18 Sept. 2014.
x. Sisk, Michael. "The Future of the Bank Branch." American Banker. Source Media, 27 July 2009. Web.18 Sept. 2014.

Branch transformation must be undertaken in a strategic way that reduces costs, while at the same time meeting the business goals of the institution and the specific branches. And transformation is not “one and done;” rather, transformations must be set up to evolve with the marketplace.

Add it all up

The urgency for institutions to transform their branches is intense. Most experts highlight the need for transformation in order for financial institutions to retain and grow profitability at their branches. Financial institutions need third parties who can understand their needs, based on their business plans, and quickly respond to develop and implement transformation projects. The ideal partners for institutions are those who are best able to understand their needs and provide the right services for their situations. While there are lots of great ideas out there, institutions need to look carefully at their branches and what they need.

About Hyosung

Hyosung Americas is the leader in branch transformation technology and uniquely positioned in the market to provide best-in-class solutions. Our vertically integrated business structure allows us to offer a customized approach and rapid go-to-market strategy while ensuring a high level of serviceability.

Hyosung partners closely with clients and utilizes its industry expertise to provide financial institutions with the advice and solutions they need to solve their specific business issues. With the support of our parent company, Hyosung Inc., we guarantee a continuous commitment of the highest-quality innovation and customer service, creating an experience for you like no other.

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