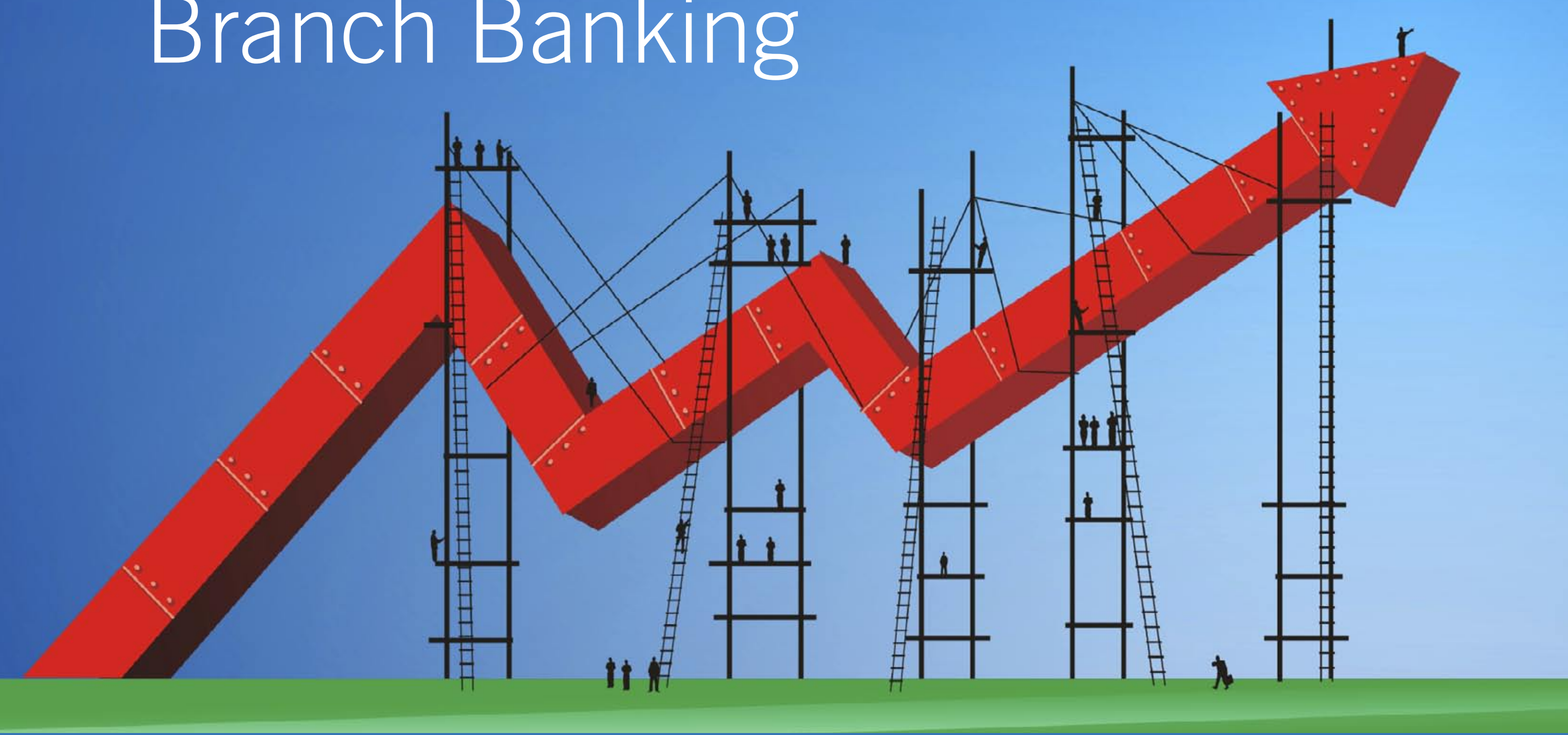
The Rise, Fall and Rise of Branch Banking



To remain competitive, grow market share and reduce attrition, banks must find new ways to reinvigorate branch banking and become more customer-focused organizations.

Ten years ago, who would have forecast that banks would be opening more branches in order to better serve their customer needs and win back market share? Not many, since the general consensus in the banking industry – fueled largely by the dot-com boom – was that the Internet was the wave of the future and the key to account growth, customer satisfaction and reduced operational costs.

However, banks now realize that in order to succeed in today's marketplace, they need to bring their customers back into the controlled environment of the branch and optimize all of the available customer channels. Indeed, there is considerable effort with banks trying to figure out how best to balance and optimize customer service across channels. Banks must strike a balance between low cost/low touch and high cost/high touch transactions, so that they can serve aging baby boomers and the newly mass affluent with higher value financial advice and planning and also serve less affluent customers with low cost, basic transaction services. All of these need to be complemented with anytime/anywhere channels like mobile phones, Internet and ATMs to match customer needs with the right product/service and channel mix. Today's account growth and customer retention strategy must center on ensuring a superior seamless, consistent and higher value customer experience.

How Did We Get Here?

More than two decades ago, banks began to embrace online banking and transform their business, adding more electronically delivered services, shutting down branches and replacing them with a combination of telephone AVR, kiosks and ATMs. In doing so, they shifted from personalized, face-to-face customer interaction to less costly – but more remote – electronic channels and the Internet.

"This migration to 'arms-length' banking resulted in today's customer perception of their bank's primary purpose – namely, a place where simple financial transactions are performed, and not where they obtain financial advice, direction and services," says Alan Horton-Bentley, Global Industry Solutions Executive, Financial Services, IBM Enterprise Content Management. "Closing branches was a significant contributor to promoting an attitude within the customer base that the bank was more interested in its bottom line than their best interests. Thus, customers no longer regarded their bank as their advocates."

ATMs were initially heralded as the silver bullet that would transfer in-branch customer interactions to machines. In this regard, they have been very successful, but only for the simplest of transactions such as dispensing cash. Telephone banking and online banking have proven to be convenient and more cost effective for bill paying and money transfers than the ATM. Nevertheless, banks closed many underutilized branch offices and reduced staff in those that remained. The "Three Ps" ruled supreme; banks needed to find a way to reduce dependence on people, premises and paper, leading to large-scale automation projects. In the process, customer service suffered.

Electronic banking became the only practical and cost effective method of managing the exponential growth in transaction volumes and customers demands for online access to financial data. Banks have long enjoyed the cost savings from automation, not only in the reduction of the number of premises but also in the number of branch personnel. Automation has also had a very positive impact in terms of reducing errors and reducing education requirements for branch personnel. The industry thought it had a win-win situation – providing customers with 24/7 online access to banking services, and allowing customers to perform their own data entry. This worked for a while, but the cost savings has come at great expense. Banks have lost their close connection with customers.

The automation of branch banking functions has also resulted in a downgrading of customer expectations with respect to what transactions can and should be performed in a branch. In a sense, customers have been conditioned to expect mediocrity. Accordingly, most customers use the branch strictly as a place to perform simple transactions. Further, because of high branch personnel turnover, we seldom recognize any of the staff or are aware that the branch may, in fact, have highly qualified financial advisors. Thus, customers have been trained to spend as little time as possible in the bank.

Yet, according to studies by the IBM Institute of Business Value and other entities, although the Internet is a critical channel for simple banking transactions like bill paying, funds transfers and research, a very high percentage of customers still prefer to use the branch and a full 70 percent will do so for significant transactions like account opening or account changes.

Banks have been working on balancing high-touch service costs with low cost alternatives across channels for some time now. Research data reflects that branches remain at the center of almost all retail banks' channel strategies despite overall market consolidation and a decrease in the total number of banks in the U.S. Banks are increasingly motivated by the opportunity the branch presents as a key part of an integrated service delivery system. Since the bank's most successful cross-selling strategies depend on optimizing all the customer interaction channels seamlessly – particularly face-to-face interaction – it's essential that financial institutions devise new customer facing strategies that foster a richer branch banking experience and strive to redevelop a deeper customer relationship.

So what will opening more branches achieve?

One international bank recently opened more branches in Manhattan with better quality carpeting, furniture and customer quiet zones. However, it will take a great deal more than opening additional branches or better accommodations to entice customers to remain in the bank branch.

A good start would be to alter hours of operation, so that branches are open when customers are typically not at their jobs, extending hours of operation during weekdays and into the weekend. Branches that have opened for extended hours have realized significant improvements in customer acquisition, retention and cross-selling. Customer attrition dropped by eight percentage points; new accounts increased by four per day; and products per customer went from the bank average of two per client to 3.8 per client.

Customer Insight to Customer Advocacy

The customer-bank relationship and deep customer insight have become critically important to banks' growth strategies. Customers will not be as willing to engage in a deeper relationship with a bank that does not demonstrate in depth knowledge of the customers' goals and preferences and are at risk for becoming adversaries.

Presenting customer information that is highly fragmented to the customer-facing employee's desktop with little or no real-time analytics to assimilate the information to support proactive recommendations to the customer is of little value. Because of this, customer retention and cross-selling strategies have proven to be relatively unsuccessful. "Cross-selling programs are very difficult to get off the ground if your insight into the customer is limited and you are forced to rely on blind mail promotions or online offers," Horton-Bentley explains.

More Accounts, Less Satisfaction

A recent IBM study reveals that successful cross-selling and up-selling can actually lead to customer defection. If that isn't bad enough, the study also shows that satisfaction rates dropped with customers that did buy more. The problem centered on variations in the customer experience between different channels. In other words, the very structure of a financial institution was at fault: multiple lines of business each independently operating in silos and interacting with customers with a product view rather than a customer view.

There are specific classes of customer interaction that can lead to lower satisfaction, and ultimately, to attrition. At most banks, the level of customer advocacy, customer service levels and responsiveness to customer requests varies considerably from one line of business to another. The bank's view of the customer relationship is typically isolated to a single product or line of business. As the customer interacts with the bank via the available channels and expresses interest in new products or services or seeks resolution on issues, the bank is disadvantaged in optimizing the level of service due to organizational boundaries and siloed information systems.

A simple review of each line of business's technology and processes will show that call center responsiveness and general customer service levels vary widely from one line of business to another. To help ensure the same consistent high level of customer service across all lines of business and channels, it's imperative that banks have information systems and best practice processes in place for the following core functions:

- Customer Case File Management and Exception Processing
- Account Opening
- Credit Approval

Optimizing channels, Optimizing face-to-face interaction

A recent Forrester Research study that focuses on customer satisfaction reveals sobering news about customer attitudes toward their financial institutions. According to survey results, investment banks and brokerage houses rank significantly higher – almost double – than branch banks in overall customer satisfaction. What's more is that only a very small percentage of consumers surveyed said they felt that their bank had their best interests at heart – as opposed to merely being concerned about its bottom line.

Investment bank and brokerage financial consultants typically spend much more face-to-face time with their clients than branch bank personnel do. They are perceived as and seemingly act as advisors on behalf of the client, focusing on more weighty financial issues and goals in a more comprehensive consultative fashion, whereas bank personnel are typically focused on specific transactions. Many banks are losing business to other financial institutions that spend more time developing a close, advisory relationship with their customers.

More of the same cannot be the answer

We consistently hear banks making commitments to customer friendliness and to going that extra mile for customers, declaring that improving the customer experience is the number-one priority for their organization. This is clearly good news to customers. Now, customers are waiting for banks to follow through on their promises.

As a result, and as mergers-and-acquisitions activity levels off, leading financial institutions are increasingly looking to their existing customer bases for organic growth, developing the best bank-customer relationship possible, and for good reason. Happy customers will buy more and stay longer.

Therefore, a bank's ability to effectively manage and influence customer attitudes becomes paramount to achieving organic growth. Many banks are struggling to identify the right mix of products, sales programs, process and technology improvements that will lead to higher growth. In order for banks to fully achieve the benefits of organic growth, executives must understand customer attitudes and their impact on customer behavior.

Focus on the Customer Experience

How can banks foster and deliver a more rewarding customer experience with the right balance of low cost/low touch services and high cost/high touch services?

Banks must begin with a complete, single view of all relevant customer information in order to gain true ▶

customer insight. Information innovation is required in the form of smart customer data derived from real time analysis of client profile and transaction data made easily available to branch personnel as the basis to deliver sound personalized financial advice. Leveraging all forms of customer information will lead to a more customer centric organization.

Branch reinvigoration requires an empowered, educated and motivated front line staff equipped with technology and streamlined business processes that enable highly effective cross selling and enable delivery of customer service excellence. Banks can no longer expect growth and customer loyalty with a collection of disparate line of business service offerings and complex, laborious, non-integrated processes.

The benefits of reinvigoration are far-reaching and will help banks address their many regulatory, growth and operational efficiency challenges that include:

- Retaining existing accounts
- Reducing attrition below industry average
- Winning new accounts to replace attrition loss
- Growing existing accounts by cross selling
- Effective cross-selling by leveraging a single customer view
- Using real-time analytics to drive in-branch customized advice and counsel
- Transforming the customer experience at the branch from transactional to relationship
- Improving customer data security and avoiding account data hacking/theft
- Meeting regulatory compliance:
  - Enhancing anti-money laundering monitoring and reporting
  - Complying with Basel II, MiFID and SEPA
  - Improving customer authentication and identification techniques
- Providing the right information, in the right context, at the right time
- Reducing operational costs
- Improving efficiency and productivity

Reinvigoration and Optimization of Information Management

So how do you leverage your information assets to gain greater customer insight and increase revenue, contain costs and achieve regulatory compliance?

Banks should begin by:

1) Assessing the scope and effectiveness of their current information technologies, and how well information is captured, managed and secured in their organization;
2) Ensuring they have a complete, 360-degree view of the customer, not just at the data level, but content and a “golden” source of customer profile;
3) Making sure that enterprise content management and business process management technologies are being fully deployed to integrate and optimize end-to-end business processes;
4) Determining when, if ever, the line of business systems were audited at the functional task level to ascertain whether each task is being executed in an optimum manner;
5) Assessing the extent to which the line of business silos and non-integrated systems are limiting innovation.

Gap Analysis – a powerful tool

Institutions must carefully examine where and how their information management tools are deployed in order to determine where process inefficiencies, outdated point solutions and fragmented repositories may be blocking information and process optimization. Banks can assess the level of business value currently realized from their investment in ECM and BPM across the enterprise and comparing the current level against an optimized future state. This will enable banks to come up with a gap analysis to provide the basis for an ECM and BPM roadmap. This roadmap will provide insight into potential areas where ECM and BPM can return high value to the business and promote reinvigoration initiatives.

“Optimizing information dissemination within and across silos will reinvigorate existing line of business service offerings to facilitate new product development and stimulate organic growth initiatives that are truly customer focused. We refer to this process as ‘right tasking,’” Horton-Bentley says. ■