



Transforming the Branch: What Banks Need to Do

By integrating the channels through which they sell to and serve customers, bank branches can take the best advantage of their physical and virtual locations and add value at every touchpoint.

Executive Summary

The branch has long been the foundation for banking, and the channel of choice for bank customers. Yet rapid advancements in digital technologies and an increasing number of channel options are changing how customers view and utilize traditional branch locations. As more people take advantage of online banking services, the significance of the traditional branch office has faded, leaving branch managers saddled with rising operational costs and fewer staff. To meet the expectations of customers and remain profitable, they must focus on supporting and complementing digital channels and services, and adding more value to the branch and its core business. Many banks have already undertaken such initiatives.

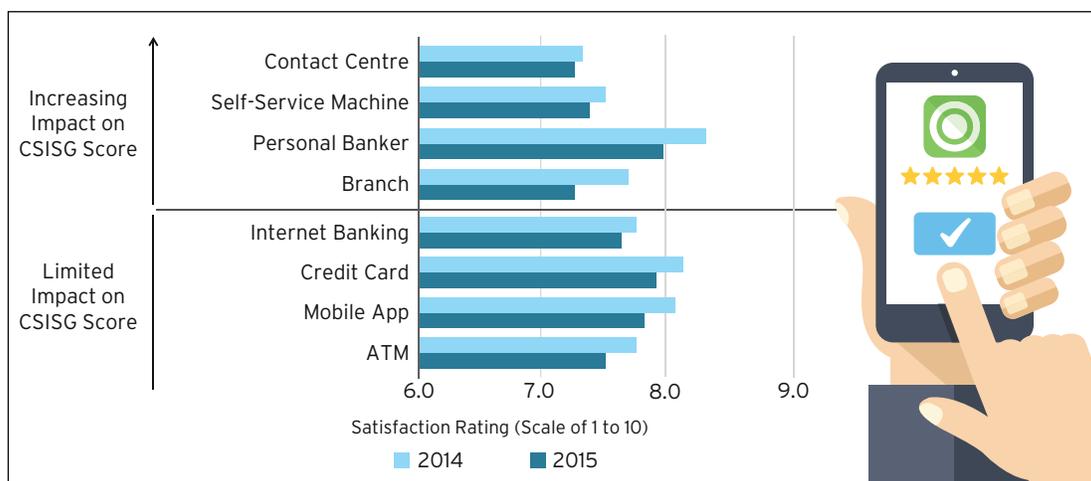
This white paper discusses the steps involved in transforming the branch into a high-value, high-functioning operation that utilizes the power of digital within the context of traditional branch environments. Achieving this goal requires an end-to-end approach that takes into account all aspects of digital transformation - from customers and employees, to technologies, data and processes.

The Customer Satisfaction Index of Singapore (CSISG) computes customer satisfaction scores at the national, sector, sub-sector, and company levels. The 2015 annual survey conducted by the Institute of Service Excellence at Singapore Management University provides some interesting insights.¹ For example, 69% of those surveyed in 2015 utilized Internet banking, as opposed to 52% in 2014. At the same time, while fewer customers interact with their branch - 42% in 2014, dropping to 35% in 2015 - the scores for branch and personal-banking touchpoints had a bigger impact on customer satisfaction ratings (see Figure 1, next page). This highlights an important point: While people like the speed and convenience afforded by digital platforms and services, many still visit their bank branch to conduct banking and interact directly with bank personnel.

In spite of the impact of the increasingly digital world, the bank branch - the oldest banking channel - is having a rebirth. In a report published by *Today*, bankers acknowledged that the attitudes and behaviors of customers - especially the younger generation - are changing. Likewise, the role of the branch is evolving in response to



Banking Channels & Their Impact on Customer Satisfaction



Note: CSISG, 2015 - The year-on-year decline in the bank's sub-sector customer satisfaction levels was accompanied by lower satisfaction with the various banking touchpoints.

Source: Customer Satisfaction Index of Singapore (CSISG), 2015.

Figure 1

the ubiquity of online banking services. Once the only place where people could conduct banking transactions, the branch is now an important venue for consumers looking for readily available, "in person" advice, expertise and services.²

While people like the speed and convenience afforded by digital platforms and services, many still rely on their bank branch.

Modernizing the Branch

To engage and retain customers who favor digital banking, branches must strike a balance by extending and enriching in-branch services, and redefining the branch as a relationship management center.

The changing paradigm for customer interactions demands that banks look at their traditional and digital channels as connected entities, rather than isolated business formats. Thus, when developing channel strategies, banks must consider and support their entire channel mix. According to the SunGard Retail Banking Readiness Survey (2013), 95% of retail bank customers in Southeast Asia and the Middle East visited their branch network on a regular basis - 10% as often as twice a week. At the same time, the branch experience remained among the top three areas that banks need to improve.³

While branch locations continue to add value to customers' overall banking experience (see Figure 2, next page), they now have the opportunity to take their products and services to the next level in several key areas:

Enhancing the In-Branch Experience

When selecting a bank, customers consider a number of factors that contribute to their overall experience: the bank's branch locations and formats; the availability and expertise of bank personnel; and the ability to support corresponding banking services across physical and digital channels.

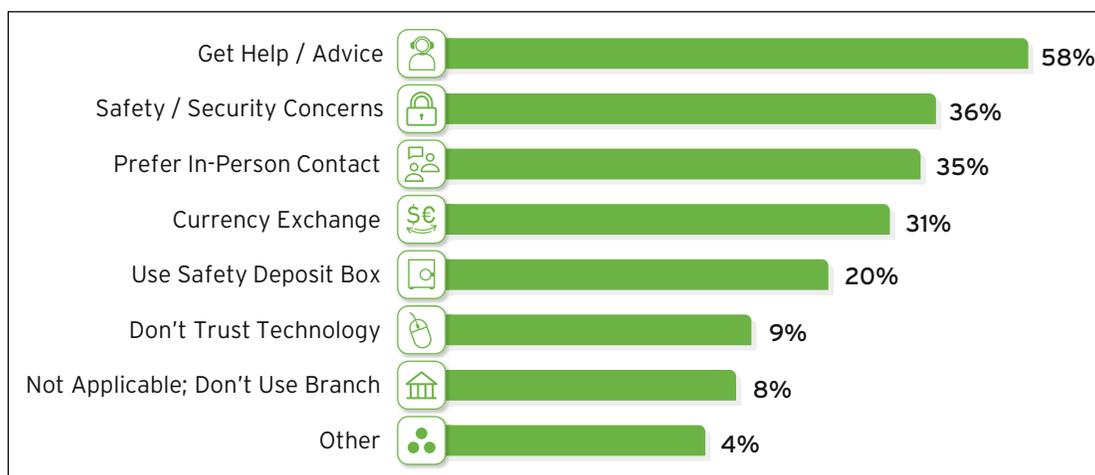
Strengthening Customer Relationships

The ever-increasing battle to deepen customer relationships is another key driver that can directly translate into value for both the customer and the bank.

Managing Branch Costs

The rising costs of running a branch have become an acute problem in several Asian countries. According to a survey of Asian banks, China, India and Thailand reported that the average customer made 31, 28 and 25 branch visits per year, respectively - far more than in Australia (12), France (13) or the UK (14). However, branch visits in the Asian countries consist primarily of routine transactions that do little to improve loyalty but drive up the costs of branch operations.⁴

Reasons for Using the Branch



Source: SunGard Retail Banking Readiness Survey, 2013.
Figure 2

Improving Branch Productivity

Given current margin pressures, Asian banks are looking to improve the productivity of their staff and the efficiency of their branch operations. Affording fast, easy access to timely, contextual information (on customers, products/services, transaction details, etc.) can significantly lower costs and heighten overall branch performance.

To engage and retain customers who favor digital banking, branches can extend and enrich in-branch services, and redefine the branch as a relationship management center.

Malaysia-based Bank Simpanan Nasional (BSN), which has more than eight million customers and 400 branches, rolled out virtual teller machines to provide better services to its customers. The machines reduce queues by deploying shared-teller resources quickly and efficiently between multiple branches. They also allow available tellers from any other location, whether urban or rural, to serve customers remotely - freeing personnel to focus on other activities.⁵

Differentiating the Branch Channel

Banks are bullish on differentiation, especially in light of growing competition. Offering innovative products and services and truly superior customer experiences through the branch channel can reinforce the significance of branches and

underscore their effectiveness in the minds of customers.

United Overseas Bank (UOB), which maintains branches across Singapore, has performed a branch refresh. The new pilot branch has transformed into a wealth-management advisory center featuring, among other things, videos that tell the stories of Singaporeans who have achieved their dreams through financial planning. The aim is to communicate UOB's value to customers and differentiate the bank among its competitors.⁶

Focus Areas for Branch Transformation: Our Point of View

Develop an Integrated Channel Strategy

Distribution channels are far more than avenues for delivering products and services; they are powerful gateways that can be used to generate and synchronize revenue streams. Consequently, approaching the branch as a distribution channel should be an essential component of a bank's strategy to enable seamless, consistent customer experiences.

HSBC, the largest foreign bank in China, has more than 170 outlets in the country. The British bank has made its push into China, in particular the southern Pearl River Delta region, a strategic priority. However, HSBC also wants to drive growth through digital channels. The distribution strategy in the Pearl River Delta is to develop digitally-led bank branches that will help the bank compete with large traditional bank branches.⁷

Bank of East Asia, the No.2 foreign bank by branches in China, is also considering turning some of its traditional bank locations into more efficient digital outlets after implementing a similar strategy in Hong Kong.⁸

Reformat the Branch

To improve the customer experience and hone branch efficiency, banks need to adopt digital platforms, processes and applications that equip these locations with technologies and tools that allow them to operate in the context of serving the right customers at the right time and place through whatever channel they choose. Common branch formats include:

- **Light branches:** Highly automated; sales-focused; provide advisory services through video conferencing.
- **Kiosks:** Advanced ATMs with video facilities; set up at strategic locations to attract more footfall.
- **Full-service branches:** Traditional branches offering the entire spectrum of products and services through relationship managers.
- **Flagship branches:** Promote the bank's brand and introduce new offerings through uninterrupted, easy-to-use self-service tools.

In Malaysia, Maybank serves a mass market with self-service kiosks open for extended hours. The kiosks allow customers to open an account in 10 minutes, with just their identification, for seven product categories.⁹

RHB Malaysia launched Easy, a new brand supported by a modern retail distribution network. Conceived as a unique, low-cost, branch-centric

model to target the mass market, the new bank was designed to deliver on the brand promise of "banking simplified." Over 80% of locations have achieved break-even, typically in less than 12 months. On average, the Easy delivery model costs just 15% of the legacy RHB branches to build and operate. Customer acquisition has risen significantly since its launch.¹⁰

Synchronize the Customer Experience

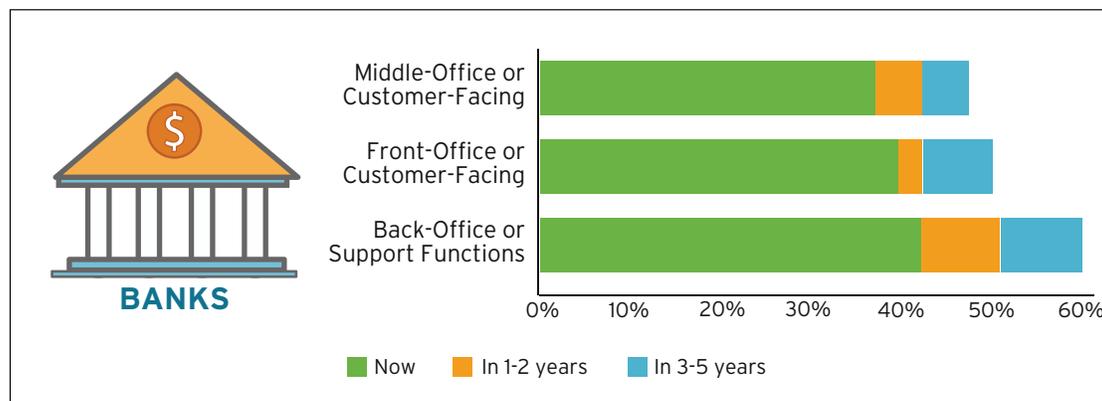
The branch can serve as a focal point, and the foundation for creating an omnichannel experience. As the only channel for face-to-face human interaction, the branch presents a number of opportunities to positively influence the customer. It is therefore crucial to have a point-to-point view of customer actions and transactions to ensure that all touchpoints are in sync. The customer experience at the branch has to reflect a "customer first" approach that applies across all other channels.

In Singapore, DBS incorporated human-centered design (HCD) thinking into its flagship branch to optimize customers' time and make branch visits simpler and more satisfying. This model is now being implemented across other DBS branches. So far, wait times have been reduced by more than 10%.¹¹

Automate Processes

Automating customer-focused activities and processes allows bank employees to spend more time performing high-value services, such as consulting and sales. Branch operations can focus on continuous process and performance improvements based on a thorough, contextually

Persistent & Pervasive Process Automation



Source: Cognizant Center for the Future of Work
 Base: Healthcare payers: 102; PC&L Insurers: 115; Banks: 153
 Figure 3

relevant understanding of customer needs. A survey conducted by Cognizant's Center for the Future of Work (see Figure 3, previous page) underscores that persistent and pervasive process automation crosses all lines of business and banking functions).¹² For example, since the introduction of its smart branch concept, personnel at Korea's Kookmin Bank branch can spend 70% of their time on sales and advisory services.¹³

Standardize Data

Every customer interaction is an opportunity to develop contextual, more personalized products and services that elevate the customer experience. However, this level of customer-centricity requires consistent, timely and accurate data management. As a result, relationship managers at branch locations will be able to make instant, informed decisions, and assist customers based on their preferences and needs.

Citibank Asia has implemented sophisticated CRM systems that span channels. Data that a customer shares at each touchpoint - whether acquired through a visit to a full-service branch, via online search or through a call center - travels with the customer and is retrievable wherever and whenever the customer comes in contact with the bank.¹⁴

Adopt Emerging Technologies

Today, branch transformation depends first and foremost on technology - the foundation and true enabler of branch design, processes, and customer experiences.

For example, replacing traditional teller counters with hand-held mobile devices can differentiate bank services and personalize customer experiences at branches. Devices can be operated by any branch employee - not necessarily a designated teller. Teller functions offered in a digital format provide the opportunity to quickly identify the customer, their preferences, experience patterns, etc.

According to IDC Financial Insights, by 2017, retail banks will spend more than \$16.5 billion on branch-based technology. Institutions in the Asia-Pacific region will notch up the highest overall spend (see Figure 4).¹⁵

Asian banks recognize the need to appeal to savvy, "born-digital" customers through quicker product turnaround times and high-tech

touchpoints such as self-discovery solutions, video kiosks and assisted self-service.¹⁶

DBS Singapore has employed technologies and best practices from other industries to revamp the traditional retail banking experience. Wait times at DBS flagship branches have been reduced by enabling customers to pre-complete electronic forms prior to visiting the branch; carry out self-service transactions; and access DBS products via iPads provided in the banking hall prior to being served at Quick Serve counters.

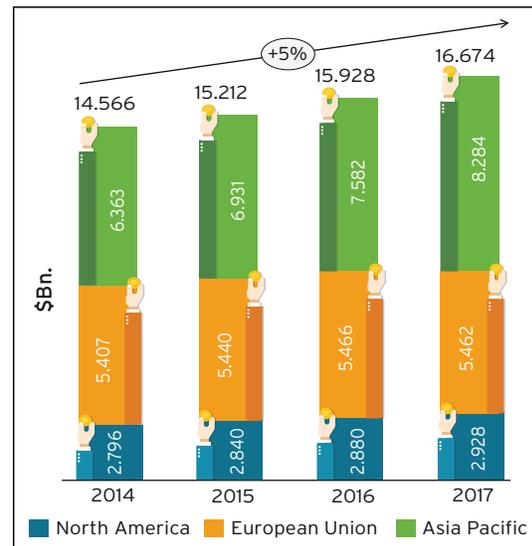
Ergonomically-designed consultation pods in the branch help increase customer engagement and "stickiness" in the branch channel.

MicroTile, an interactive wall at the branch entrance and the first of its kind in Asia, allows customers to interact with a virtual assistant through hand gestures. Customers can gain insights on banking and finance, learn about the DBS rewards program, or simply interact with the bank's motion-sensing virtual assistant, New Asia, outside the bank.¹⁷

A Roadmap for Branch Transformation

While branch transformation can be part of a bank's long-term channel strategy, it needs to be executed within a shorter time frame. Given the

Forecast Spending on Branch-Based Technology, 2014-2017



Note: Forecast includes spending on hardware, software, services, and internal IT. Branch-based technology includes all platforms to perform sales, servicing, and processing activities.

Source: IDC Financial Insights, 2014.

Figure 4

rate of technology advances and the booming start-up culture, branch initiatives will rely on Agile methodologies. Collaboration, team-building, rapid delivery and continuous improvements will help banks prepare for and respond quickly to change. The credo should be “Start Small - Recover Fast - Improvise - Succeed - Optimize to Scale.” Following are core principles for branch transformation, which always put the customer first:

Understand the Customer

- Analyze the unique characteristics of branch banking customers.
- Identify their priorities from the bank branch and evaluate these needs in the context of other digital channels.
- Perform customer segmentation based on customer preferences such as banking requirements, location, preferred products and services, and historical behaviors.
- List branch banking products and services by priority.

Revamp the Branch Channel

- Assess the branch's key attributes, including the market and other factors that influence branch performance and locations (established vs. new).
- Create the right mix of branch formats to improve overall channel effectiveness.
- Leverage the unique attributes of the branch to determine its primary functions.
- Use the branch channel for relevant products/ services that require in-branch interactions.

Adopt a Customer-Centric Approach

- Make the customer the focal point of all interactions and channels.
- Design and deliver intuitive, easy-to-use and interesting customer services that personalize every interaction at the branch.
- Orchestrate services through multiple channels - continuously, consistently, and in the right context.
- Utilize insights from the data collected during customer interactions and transactions at the branch.

Devise an Effective Enterprise Data Strategy

- Integrate enterprise data to help achieve a 360-degree view of the customer - the first step in branch transformation.

- Apply analytics to gain insights for decision making and targeting relevant products and services.
- Implement advanced data-security and privacy measures to safeguard the growing volumes and use of data.

Empower Branch Staff

- Extend the role of tellers to include customer relationship management.
- Position the branch as a sales channel by placing front-line staff closer to customers.
- Utilize process automation and digital orchestration to optimize service-level agreements (SLAs) and improve branch productivity.
- Use real-time information in branch operations to detect process bottlenecks and take immediate corrective actions.
- Rely on digital accelerators such as business rules management, workflow management and business-activity monitoring to support process digitization.

Invest in Technology

- Partner with technology innovators.
- Adopt a co-innovation model that fosters continuous innovation at every step: ideation, application development, prototyping, implementation and scaling.
- Enable cross-channel visibility into client records to develop innovative loyalty programs, allow customers to create personalized products and services, and add more value to the branch.
- Utilize video conferencing, which combines the advantages of face-to-face interactions with the cost savings of remote and/or consolidated experts.
- Offer an in-branch concierge with access to customer transactions and interactions at various touchpoints to speed transactions and provide individualized services.
- Utilize in-branch kiosks to reduce wait times and afford customers video-based access to the most appropriate and available resources and skills.

Looking Ahead

Bank branches will continue to adapt as digital technologies advance and the use of cash decreases. They will need to become highly productive and significantly less costly to run.

As staff levels shrink, branches must carry their economic weight even as banks experiment with new branch concepts. These trends will accelerate due to changing customer expectations and behaviors.

Branches will evolve into flagship information sites with advisory and engagement hubs for education, financial advice, full-service capabilities and community-focused services. Smart kiosks will offer service, sales, cash and video contact with a range of specialists. Banks will rapidly extend their branch footprint while reducing branch sizes and costs; introduce new

models; and migrate transactions to low-touch digital channels.

Branch services will be led by digital - allowing branch staff and customers to use the same platforms with the same look and feel as the bank's digital channels. At the same time, the human touch of the branch will prevail, aided by digital capabilities. The branch of the future will be digitally-driven, customer-focused and efficient - able to sustain a competitive advantage and remain profitable by engaging customers every step of the way.

Footnotes

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