THE FUTURE OF US BRANCH BANKING
Abstract

“Ding, Dong the branch is dead. Which old Branch? The Banking Branch. Ding, Dong the Banking Branch is dead!” .... (with apologies to the Munchkins). We have all heard that song, it has been around for years. Since the introduction of a machine to pay utility bills in New York’s First National City Bank (the precursor to Citi) in the early 1960’s through the early 70’s when the first true ATM’s were introduced, experts have been predicting the demise of the bank branch system.

With the introduction of the technology laden, more sophisticated banking multi-channel experience, and the explosion of social media and mobile banking, we are still having the same debate. “Ding, Dong brick-and-mortar’s dead”. That, combined with the tremendous upheaval that the US banking system has undergone over the past few years as it tries to recover from near collapse post mortgage crisis, has forced banks to overcome the daunting task to trying to do more with less. Increased capital requirements have put an incredible strain on limited company resources. As pressure mounts, some have even taken to drastic measures such as branch closures and customer service layoffs just to ensure survival.

Well the answer may be found in a famous Mark Twain quote: “The reports of my death [have been] greatly exaggerated”. The branch system may be in need of an overhaul, but it still serves a distinct purpose for a major portion of the US population and will probably do so for the foreseeable future. In times where financial institutions are suffering from lack of trust, it is a comfort to many to know that they have a solid foundation for transacting money matters just down on the street corner where familiar and trusting faces greet you daily. The older population still visits the branch to conduct routine banking activities. So a segment of the population still relies heavily and depends on that interaction.

So the question remains: How can service levels and customer satisfaction be improved (or at least maintained) while cost pressures are forcing retail operations to reduce overhead expenses? Are there any opportunities to improve overall sale & service effectiveness of banks during tough economic times? What innovations loom on the horizon that can lead to a better bottom line and improved customer experience?

Simply put, there are no silver bullets. Wipro’s Banking and Financial Services practice takes a look at the current state of branch banking in the US and offers a glimpse of what might be in store for those looking to make the most in the face of today’s challenges.
HIGH IMPACT AREA #1:

For high-margin/high-touch products such as mortgage, insurance and investments – the branch is still and will probably remain the primary channel.

Whereas simple checking account activities such as balance inquiries, balance transfers and payments can be conducted “one-and-done” style by a teller, ATM or Web, the more complex financial instruments lend themselves to better understanding of customer needs, options and decision making.

In a recent article jointly published by Wipro and Wharton, Wharton marketing professor Elea McDonnell Feits says she can envision a world where for most transactions bank customers would use the ATM, mobile banking or the Internet. But they would go to a bank branch when they need to find “highly skilled, highly trained people who can handle the most difficult transactions or the most difficult situations, including financial advice.” This has significant implications for banking services that are delivered through branches. “That means the bank branch needs to re-envision how services are provided,” she says.

Even though improving branch sales and service performance is a top priority, few banks have invested in newer technology to help them realize that goal. Enabling a 360° customer view via an easy-to-use and navigate front-end CRM system has become the calling card today of many forward thinking banks. Rather than rip and replace an entire core banking system in order to achieve better customer relationship management, these banks have put “lipstick on the pig”. With a focus on non-teller based transactions to be performed by a Banker, these next generation sales and service systems put the right information and alternatives at the fingertips of the Relationship Managers.

So in addition to getting a more complete view of the customer relationship, product offers are proactively generated and shared with the sales force. So for those customers in need of a mortgage, the right tools are given to field force to pre-approve and provide pricing options. The customer feels more attended to and feels that the bank has a deeper understanding of their needs. Likewise, other non-banking products and services such as insurance and investments can be funneled through a sales force automation system that can track customer interactions, provide much needed workflow and alerts and ultimately help better match the banks offerings with customers’ needs.

HIGH IMPACT AREA #2:

It is not a matter of “either/or”. How well a bank can create a rich and meaningful multi-channel experience will differentiate them from the pack. Today’s banking customers want an integrated channel journey -- start online, follow up via phone, finish in branch, confirm by email.

Only 45-55% of consumers are aware they can apply for a credit card or apply for a loan online.  
Source: Bank Innovation Monitor

The web can be a great place to start a loan application. But once an application reaches the back-office, much of the opportunity to interact with customer gets lost. We have placed so much importance on automation that perhaps we forgot how important it is to maintain the customer relationship – even while they may still be a suspect/prospect.
and not a full-blown customer just yet. However, the online channel and email can be leveraged extensively to create a rewarding customer experience by providing real-time application status updates, sending and receiving required documentation and including the customer in the fulfillment process.

Thinking of credit products holistically in terms of channel interaction is another way of finding the right balance between human and electronic interactions. Many interactions can and should be done in person. Others can be done in more impersonal ways such as email. Regardless, thinking about the entire value chain as one continuous customer dialog can provide insights into leveraging the best channel for the most appropriate form of communication and interaction. A loan application originated online can be taken to conclusion via the branch channel if so desired. The mortgage consultant in a branch can provide the advisory “high-touch” as well as the familiar support angle in case the customer has challenges in completing the application.

Certainly the rapid progression of smart phones, text messaging and the like offers new and exciting opportunities for banks to interact with their customer based upon their preferred communication preferences. Defining, developing and implementing the right mobility strategy can be a very cost-effective and innovative way of preparing for the next generation of banking customers.

HIGH IMPACT AREA #3:

Modemize the Branch Banking Experience. The brick-and-mortar branch must be redesigned to make it a more compelling place to “drop-in”.

For example several foreign banks have tested reinventing the branch format:

• The Spanish banking group Banco Bilbao Vizcaya Argentaria has launched a “more humanized” full self-service branch based on next-generation, advanced teller machines to replace the conventional “Cold ATM” functionality.

• The Dutch ABN Amro Bank has experimented with a “teleportal” branch that is an unstaffed videoconferencing facility.

• Germany’s Deutsche Bank innovated way back in 2005 with its Q110 branch in Berlin, which contains lounge and self-service areas, along with tangible product displays that allow customers to pick up a package and pay for it at a counter.

• Others include BNP Paribas’s “Opera Concept Store,” a boutique branch in Paris.

Domestically, we have seen several trends emerge as banks in North America have started to rethink the branch experience:

• WaMu for example, introduced us to “Occasio”, a remodeled branch that incorporated many retail features. Occasio locations were stylish and didn’t look or feel much like a bank at all. The traditional teller counter and windows were removed. Customers were greeted by a concierge, and tellers were positioned at free-standing “pods” that resembled tall bar tables.

• Portland, Ore.-based Umpqua Bank has redesigned its branches as “community centers,” while the Canadian TD Bank has rebranded all its branches as “TD Bank Store,” largely inspired by retail industry concepts.

• Citi too has launched its own “branch of the future” project in New York’s Union Square. Instead of picking up a paper brochure, prospects and customers can interact with touchscreen wall to learn more about products and services they might be interested in. And customers can use a video chat station in the ATM lobby at any time of the day, 7-days a week to speak with a customer service representative.

Although Chase killed the “Occasio” concept shortly after acquiring WaMu, the concept of putting banking reps in closer proximity with the customer – in a comfortable, more relaxing environment -- merits further investigation for Retail-centric banks. Citi’s branch of the future keeps high-valued customers happy and comfortable by giving Citigold account customers access to free Wi-Fi in a private seating lounge while “media walls” display news, weather, and information about Citibank.

HIGH IMPACT AREA #4:

Threats from non-traditional sources. Product innovation in financial services hasn’t been limited to banks. P2P banking – both consumer lending and alternative payment routes – from companies such as Prosper, PayPal and OboPay threaten to disintermediate banks from their bread-and-butter: their customers.

The opportunity exists for banks to create products and services the GenY want and need. Product and services that leverage the tools and technologies most desired by today’s always connected consumers.
Banks, which have hitherto been poor innovators need to take charge of innovation on this front, and collaborate with others in the mobile value chain like handset makers and mobile service providers.

Take for example Chase and USAA’s introduction of a Remote Deposit Capture (RDC) app for the iPhone. A better mouse trap? Perhaps not. But, it is innovative and it has the potential to shake up the status quo. It goes without saying that RDC is a potential fraud risk if not managed properly. For this reason, the RDC roll-out has been carefully and cautiously planned out, starting with only the most trusted and low-risk customer segments.

RDC does indeed reduce a customer’s dependency on a branch. But it does so with a focus on a low value-add activity: making a deposit. If low value added activities continue to move away from the brick-and-mortar, investments in branch technology must not simply focus on automation. Technology investments that improve the customer relationships and level of service are bound to improve customer satisfaction, loyalty and perhaps even wallet share.

So how can a bank take better advantage of technology innovations to re-engage with their ‘oh-so-technically savvy’ customer base? Some answers may simply lie in adding new and exciting online and mobile banking features. Others may lie in product innovation itself. Either way, the notion of a bank simply being a place to have your paycheck deposited into every month and a way to pay your bills is a thing of the past. Systems, processes and even everyday thinking needs to change in ways that foster innovation. Banks need to make it easier for individuals to conduct their financial transactions without having to find an ATM or Branch. And it needs to be convenient.

**Conclusion**

The key to the branch of the future is to make it deliver better in terms of customer expectations compared to online/alternative delivery channels. That requires it to address what other channels cannot – handling a request from a customer and see it through to completion. Empowering staff in the branch to deal with the complex is the secret to success. Technology may play a part in this empowerment but that is not the only way to ensure that the customer experience is aligned to customer expectations.

Just as the passbook died a slow death, the branch of the past is a dying breed. So while branch closures, staff cutbacks remain a viable necessity, banks need to look to product and systems innovation to stay ahead of the curve. The potential for mobility, interactive branches and P2P payments is still relatively untapped. Whether it’s a traditional retail bank or an online innovator such as Mint.com that takes the lead, doing more with less will be the mantra of the future. Finding good partners to take with you on that journey requires fortitude and even a leap of faith. However, those who embrace the changes about to happen can define new market segments, capture market share and ultimately survive in the new world order.
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