As seen in BAI Banking Strategies

The Four Myths of Branch Transformation

Prudent banking executives opt to offer consumers options despite pressure to accelerate branch closures and migration to digital channels.

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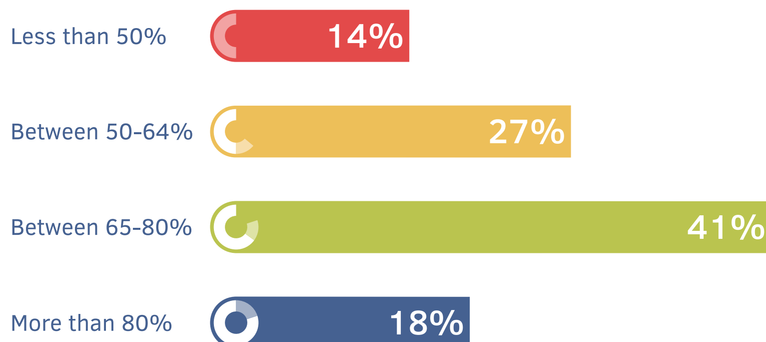
Proponents of digital banking argue that U.S. retail banks should accelerate branch closures and migration to digital channels. Their conclusion is this: aggressively reducing physical locations and staff will speed the pace of channel migration, reduce service delivery costs, and bolster profits.

Some consultants even go so far as to suggest that digital interactions and self-service will much more likely delight customers and increase loyalty than human interactions at branches or contact centers. But if this argument rings true, then why do prudent banking executives opt to offer consumers options to choose when, where, and how they want to bank? In considering that question, we will examine four myths prevalent in the sphere of branch transformation.



2017 CBA Kiran Analytics Webinar: Branch Workforce Transformation

Myth 1: More digital transactions means fewer human interactions in physical channels

Contrary to what digital banking advocates assume, consumers' preference for mobile devices does not reduce their desire for human interactions in physical channels. According to the Ernst & Young Global Consumer Banking Survey and Market Force Information Survey, consumer use of digital channels actually increases human interaction in physical channels.

It is true that more consumers prefer mobile devices to check account balances, make account transfers, and deposit checks. But they also prefer to visit their traditional branches to get cash, pay bills, open accounts, establish credit, apply for loans, and resolve issues with their accounts.

REALITY: More digital transactions also means more branch visits and calls.

Myth 2: Closing branches improves profitability

Convenient branch access remains crucial when consumers and small business owners select with whom they bank. A recent consumer survey by Bain and Company clearly shows how branch closures impact customer loyalty. According to the study, nearly 40 percent of U.S. customers who experienced a branch closure took their business to other banks.

Customers who interact across multiple channels with their primary bank have more products and are more profitable.

According to an interview with Jonathan Velline, executive vice president with Wells Fargo, checking households that used three-plus channels and nine-plus transaction types are nearly twice as profitable and 24% higher in customer retention than those who used less than two channels and had fewer than three transaction types. In the profit projections, it is easy to overlook the hidden impact of losing these most loyal and profitable customers.

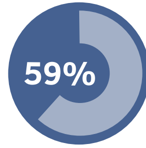
Granted, closing branches and reducing staff will reduce operating expenses. Yet forcing customers to use digital channels will also drive a sizeable percentage of them to other banks. Human interactions still serve as the primary source of cross-selling and referrals. Loyal, high-intensity customers will defect without them, limiting the opportunity for growth and profits over time.

REALITY: Closing certain locations in declining markets will likely improve profits, but closing branches without predictive modeling and analysis will hurt long-term profits because it will drive away the most loyal and profitable customers.

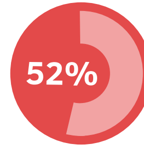
Myth 3: More in-branch technology means more customer convenience and reduced cost

Branches are important for our bank because:

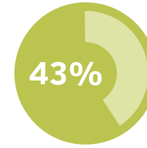
FACE-TO-FACE INTERACTION



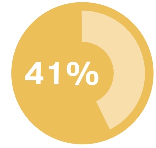
NEW ACCOUNT OPENING



BRAND AND REPUTATION



CONVENIENT ACCESS



Kiran Analytics 2016 Workforce Strategies Survey

Automating teller transactions, migrating customers to self-service or assisted self-service technologies remain popular branch transformation strategies for improving operational efficiency. Software tools for digital appointment booking and lobby management are also popular technologies intended to improve the quality of customer interactions with frontline staff.

But not all consumers are interested in self-service or new technology: in fact, some will never be interested in it. Case in point are two households on my street—classic examples of the millionaires next door. They live within their means. They drive old cars. For them, convenience is the personal service they get from branch staff who know them by name.

Technology doesn't stand on its own. Contrary to popular wisdom, even younger, more tech-savvy customers say they appreciate the opportunity to talk with someone to learn how to use new technology. The reality is tech-savvy, multi-purpose staff members demand higher wages.

REALITY: Self-service and technology means convenience when and where consumers prefer to use it. The actual cost of maintaining and operating branch technologies are not realized until they've been deployed for a few years.

Myth 4: Tellers are no longer needed in branches

There is no question banks must reconsider how tellers are deployed given the changing nature of customer interactions in branches and the declining customer visits. Still, the need for tellers continues to exist and will for some time.

According to a recent Kiran Analytics workforce strategies survey, prudent banking leaders are evolving staffing strategy around tellers. They continue to deploy full-time tellers in traditional branches with large transaction volumes. They deploy part-timers in minimally staffed branches to handle peak transaction periods. And, they retrain tellers to become universal associates,

where customer demands require skills to handle teller transactions as well as provide customer or banker services.

REALITY: Many branches still enjoy sufficient transaction volumes where it makes sense to deploy full-time tellers. And when the volume of weekly transactions doesn't justify full-time tellers, there is still the need for part-time tellers or universal associates with teller skills.

Smart banking executives rely on their own data and advanced analytics to drive branch transformation. They offer consumers multi-channel experiences and a mix along the continuum of self-service and personal service. They know that a face-to-face interaction with a pleasant, capable teller is far more likely to delight a customer and build loyalty than any digital or self-service interaction.

Underutilizing technology in the branches presents opportunities for human interaction. Banks that strive to build stronger relationships with customers are making tech savvy staff available to discuss new technology with customers.

Through piercing these four myths, one salient truth emerges: for all the speculation as to how branches themselves will transform, it remains clear that customers, who declare their loyalty and bring in their business, have undergone a branch transformation of a different kind.

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