BRANCH 3.0: THE SEAMLESS CONSUMER EXPERIENCE

EFFICIENCY, GROWTH AND PROFIT FROM OMNI-CHANNEL BRANCH BANKING

An NCR white paper

NCR

INTRODUCTION

What is branch banking? Is it a fixture on the high street, closed at weekends, filling ATMs, and the home of appointment-only financial experts? Faceless contact centers? An asset which can be cut from the balance sheet without impact on customer loyalty? Or is it at the front-end of a complex web operation, that is always available, can transfer cash around the world, but with limited understanding of what an individual customer needs from savings or lending facilities?

To date, this has been the binary choice facing Financial Institutions (FIs) and their customers, with pressures on operational cost and consumer convenience as decisive factors, compromising the FI's ability to deliver a modern, truly consumer centric branch experience. But this polarization no longer reflects reality. Consumer adoption of digital automation and self-service continue apace, but the branch should not and must not be written off as the costlier, less-efficient alternative. The branch is not going away, however it's role in an omni-channel world will be utterly transformed.

Advances in technology mean that a bank branch is no longer defined simply by location, space and time. Instead Branch 3.0 is defined by activity: by staff interaction with customers, and how that takes place. Branches are physical. They are also digital. But the branch experience resides always with its staff, and as a result, as we explain here, they should always be profitable.

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1. BANK BRANCHES AND BUSINESS FUNDAMENTALS

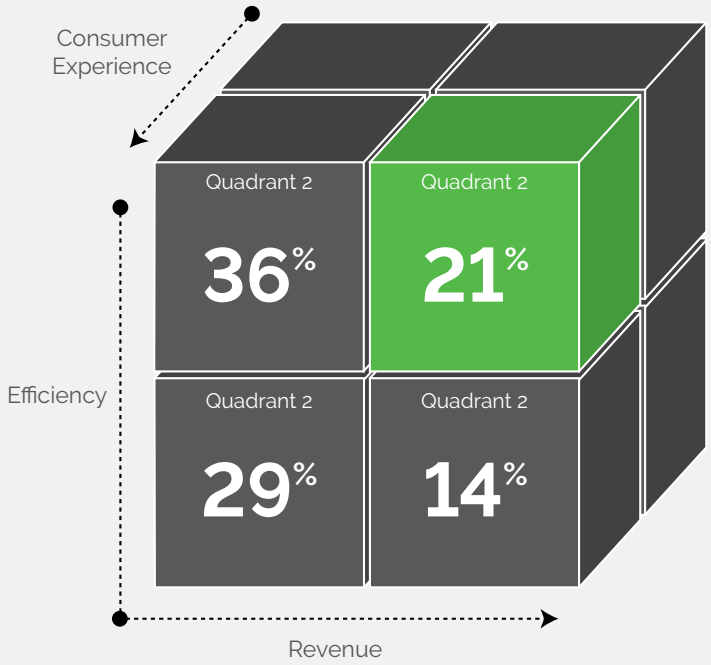
Business fundamentals apply to retail banking, as they do to any other sector, and must achieve profitable growth by combining operational efficiency with increased revenues. Unfortunately, many Financial Institutions are struggling to achieve this goal.

To deliver operational efficiency in the retail-banking context, Financial Institutions need to:

1. Right-size the P+L models for their branches
2. Migrate routine, non-revenue earning transactions away from tellers to cheaper channels
3. Optimize the distribution of branches and services to meet local market needs
4. Manage compliance and risk effectively

At the same time, they need to grow revenues by:

1. Maximizing the revenue that individual branch staff members can earn
2. Increasing the rate of product penetration in customer households
3. Creating a culture of customer loyalty to ensure repeat and future purchases



Research conducted by NCR of Financial Institution profitability over the preceding 3 years, demonstrates that many FI's fall into the 2 distinct categories of either driving accelerated revenue or pursuing major cost savings.

The research which spanned more than 200 Financial Institutions highlighted that only 21% have managed to successfully leverage both revenue growth and cost reduction strategies simultaneously.

The reason that nearly four in five Financial Institutions are struggling comes down to another business fundamental: expenses rise exponentially in times of investment and growth, which reduces efficiency; but when investments are constrained or cost-reduction tactics are the primary objective, revenue growth becomes elusive. For many institutions, growing revenue and operating more efficiently are at opposing ends of the performance spectrum.

The five success traits of the leading 20 percent:

1. A clear objective to be, or to become, their customers' preferred Financial Institution across the board
2. A well-designed customer loyalty strategy and a relentless focus on executing it
3. A vision of omni-channel service delivery, where the use of smart, interactive technologies blurs the distinction between 'clicks' and 'bricks'
4. Practical thinking that emphasises the delivery of a personalized service for each customer
5. A plan to transform their retail network and branches to achieve these ends

In other words: when backed by sound business strategy, branch transformation is a key component of delivering efficiency, revenue and profitable growth.

2. BANKING REQUIREMENTS AND CUSTOMER EXPECTATIONS

Financial Institutions are struggling with managing the relationship between efficiency and revenue. But it is not the only source of competing tensions they need to navigate. There is often a disconnect between a Financial Institution's digital-migration strategy and the preferences of key customer segments such as their mass-affluent customers.

The attractions of digital and self-service are clear. Consider simple transaction costs:

- The ATM costs approximately $0.60 per transaction
- Assisted-service or video-teller costs $1.20 per transaction
- Face-to-face engagement with a human teller costs $4.00 per transaction

Not surprisingly, a recent Cap Gemini study reported that Financial Institutions want 56 percent of their low-value, volume-product sales to be conducted through digital channels. However, Cap Gemini also tells us that customers want 53 per cent of their low-value, volume-product purchases to be made through the branch.

This contrast is not going away. It is too easy to suggest that, once Generation Y's internet natives replace aging baby boomers as the dominant customer cohort, demand for automated services will increase. But there is no evidence that this is the case. Banks cannot assume that customers are prepared to make serious financial commitments without some form of personal engagement, no matter how digitally aware they are.

The underlying role of the branch in customer engagement is one of the constants in a fast-changing industry. Branches are necessary to maintain high-value interactions with customers, and they need to remain relevant to those customers.

Branch staff therefore need to maximize the opportunities for high-value, face-to-face engagement with customers to generate loyalty and revenue. At the same time, Financial Institutions need to migrate the more routine, teller-based transactions to less-expensive, 24-hour self-service channels. All of this needs to be accomplished without losing the inherent branch-based opportunity to connect and generate leads. The fundamental shift is to make the experience seamless, enabling consumers to easily migrate from a digital channel of their choice and move their interaction to the branch when and where it suits them. Branch staff require the connected systems to enable clear signposting of the consumers' previous journey, appointment scheduling and alerts to highlight next steps in their discussions.

This can be summed up as: increase the value of service, while reducing the cost to serve.

The reality of Generation Y

The customers born between 1982 and 2004, also known as the millennial generation, are the digital natives of Generation Y. Immersed in digital platforms and online service provision, it is often assumed that Generation Y will lead the charge for full digitization of banking services. But familiarity with technology is not the same as familiarity with more sophisticated banking products. This generation is still in need of advice, but want it in a more convenient way. Financial Institutions need to reach them through multiple channels that includes face-to-face and branch interactions.

3. PASSIVE AND ACTIVE ENGAGEMENTS

Where are Financial Institutions when it comes to managing revenue and growth from their branch operations? NCR's findings show that, in the last two years, four key themes have emerged, which together have a number of implications for the evolution of branches:

1. **The customer experience is more important than the branch footprint. Quality, measured in terms of accessibility, relevance and usefulness, is more important than just quantity.**
2. **The competition is changing. Giants of the digital world are expanding their convenience-based model for shopping and other service provision into the bricks-and-mortar world.**
3. **Consumers need a seamless flow of service provision, from digital to physical banking and back again. Any differences between the online and offline environment reflects Financial Institutions' operations, not the consumer-centric approach that consumers want.**
4. **Revenue is king. The basic principle applies: if you lack the metrics for revenue growth, you lack the tools to design a banking proposition that will make that growth happen.**

Historically, branches have fulfilled the role of sales center and relationship-management office. But they have struggled to operate consistent and efficient models that allow both of these functions to co-exist in harmony. Today, the tension between pushing revenue growth, in the form of sales, and managing relationships with increasingly fickle customers is becoming increasingly challenging.

Branches need to remain relationship and advisory centers, since this is a key source of value. Research from McKinsey shows:

- 85% conversion ratio from face-to-face engagements
- 55% conversion ratio from call centers
- 15% conversion ratio from digital or online engagements

4. EVOLVING THE BRANCH NETWORK TO MEET OMNI-CHANNEL REQUIREMENTS

Globally the total number of branches is still significant, with 931,500 branches worldwide (106,250 of those in the US alone) according to recent RBR research. Consumer expectations, rise of omni-channel and pressures on banks to reduce costs are driving substantial changes in branch format, numbers and models. McKinsey research summarized four key levers to re-align the branch network.

1. New location and format: New store like outlets with flexible spaces, in areas of high footfall, technology to enable the branch to operate as extension of digital environment and evaluating co-location of branches in direct retail environments.
2. Decrease in branch density: globally we have seen a 16% reduction in branch numbers per million population (2010 to 2015), the rate is slowing significantly as correlation to loyalty reduction and churn. Banks increasingly using spoke and hub strategies.
3. Staff transformation: concerted shift from traditional teller and back office activities to relationship and sales advisory.
4. Staff numbers: FTEs account for key part of cost reduction strategies. The pace of reductions is forecasted to significantly increase 2017 – 2020 as banks pursue accelerated cost resilience strategies.

Digital engagements are essentially passive: for all the convenience they offer, they lack persuasion, personality and reactive capability of human interactions. Financial Institutions need to avoid the perception that they are driving resistant customers to automated options they do not actually want. If they do so, the leakage rates will be significant.

Financial Institutions must find a way to give all customers the best possible experience, whether they are performing low-value transactions, or buying services that are much higher in value. To do so they need to seamlessly, but cost-effectively, merge the physical with the digital customer experience.

This new 'connected' transacting and buying service consists of four core components:

1. A clear understanding of consumer personas with the channel preference clearly mapped across their journey, identifying how they want to interact and at what stage.
2. A seamless merger of physical and virtual consumer journeys: customers don't want to experience any gap between the two.
3. An expanded and differentiated service offer: customers need to see that their Financial Institution is offering more and better services than before.
4. The opportunity for human engagement at any time and in any location: customers don't want to be fobbed off with a computer when they need human interaction.

This is the omni-channel approach: focused on delivering the right offer, at the right time and through the right channel, giving customers the choice of self service or human assisted service, 24 hours a day.

Financial Institutions need to link the high-value, high-return whilst costly, person-to-person sales, with the convenience that customers actually want, and combine the access of digital with the reach and personality of more sophisticated and advanced call centers.

Crucially, the omni-channel approach enables Financial Institutions to maintain complete control of the customer browsing experience and buying cycle. The real difference between Generation Y and previous cohorts is that younger customers are less loyal than previous generations. For example, banks in Latin America and the Caribbean have seen:

- 50% year-on-year increase in the likelihood of millennial customers moving to an alternative supplier.
- 400% year-on-year increase in the number of customers unlikely to buy from their preferred financial supplier.

5. COST PER LOCATION VS. PROFIT PER PERSON

In its drive for revenue growth, the financial industry has largely focused on reducing cost per location, and migrating as many services as possible to lower-cost automated alternatives.

But to deliver on the concept that no branch need be unprofitable, an important but subtle change in thinking is required. Instead of calculating cost per location, Financial Institutions should be looking at growth in terms of profit per person – their most powerful revenue and loyalty engine – and ensuring staff have the tools to deliver a ten-fold return on salary.

In this view, staff are not just costs: they are profit centers with the potential to create significant return on investment. For example:

- A teller with an optimized workload could create $105,000 gross revenue, based on 40 value-add referrals per week.
- A personal banker with an optimized workload could create $436,000 direct revenue, based on 20 high-value referrals per week.
- A sales expert with an optimized workload could generate $405,000 revenue through a 90% appointment usage, 50+% conversion rate, and 100% availability.

Rivermark Federal Credit Union, which serves 68,000 members, is using technology to transform its branches and link physical and online banking. Having installed the NCR Interactive Teller it recorded:

- 52% increase in new members in 18 months
- 45% higher deposit balance per member
- 50% increase in Teller efficiency
- 24% higher service and product penetration per household

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6. TECHNOLOGY TRANSFORMING THE TRADITIONAL ROLE OF STAFF

Fortunately, the industry is now ready to use technology to enable branch staff to reach further than the limits of a bricks-and-mortar branch, and engage profitably with customers wherever they are located and at any time.

As we have noted before, customers will continue to expect the same convenience when it comes to speaking with banker in person as they have for more simple transactional activity. So Financial Institutions must also ensure that consumers are able to speak with their banker and conduct complex transactions, service their accounts, or receive product advice on any device in any location.

Current mobile and online banking applications are likely to extend to fulfil this role, with full-blown video interviews available all day. In this case, the remote expert will be able to control native applications, such as signature capture or imaging of documents, to instantly conclude customer sales process on those devices.

This is the Branch 3.0 model: in which the branch is transformed from being a high-street stalwart or an online interface into a hub in which customers are connected to experts whenever and wherever they choose. Driven by technology, enabled by advanced hardware and software, the Branch 3.0 model puts the customer's voice front and center, helps stabilize over-migration to digital self service, reduces the risk of customer defection, and will build out truly customer-centric propositions.

Branch 3.0 Technologies

Enabling Financial Institutions to minimize back-office infrastructure and develop new branch formats and distribution strategies, the following technologies provide cost-effective convenience to Financial Institutions and their customers.

Interactive teller: The interactive teller offers a live, video-based bank teller service through the cost-effective ATM channel while expanding hours, locations, and devices available to customers. Video enables branches to instantly augment staff with product and service experts, while tellers have remote control over the machine to conduct frictionless transactions with customers.

Interactive banker: The interactive banker enables branch staff to complete up to 90% of typical branch transactions via self-service channels thanks to software installed on branch tablet PCs. The tablet dashboard enables staff to simultaneously control multiple ATMs in branch, and uses real-time customer information to offer the most appropriate assisted service.

Q-flow: An omni-channel appointment booking service, Q-flow allows customers to use their preferred channel to book appointments and enables Financial Institutions to improve access to face-to-face staff meetings. At the same time, Q-flow enables staff to manage accompanying consumer data so that it flows across ATM, branch, call center and digital channels with minimal friction and more effective customer engagement.

Customers' devices: A key factor in the omni-channel experience is the customer's own device. Software solutions, combined with routing to interactive tellers, can enhance the customer experience and convenience still further.

7. CONCLUSION

There is a clear need to get the very best from a branch network, using technology to support highly skilled and motivated staff and help them connect with customers, engender loyalty and generate revenue.

This can be achieved by building a technology strategy that reduces the cost to serve in branches, creates a profitable, appropriately distributed, and omni-channel network, and delivers a competitive and differentiated customer experience. Rather than a narrow focus on reducing the cost to run each branch, this transformation is driven by enhancing the profit generated by each member of staff.

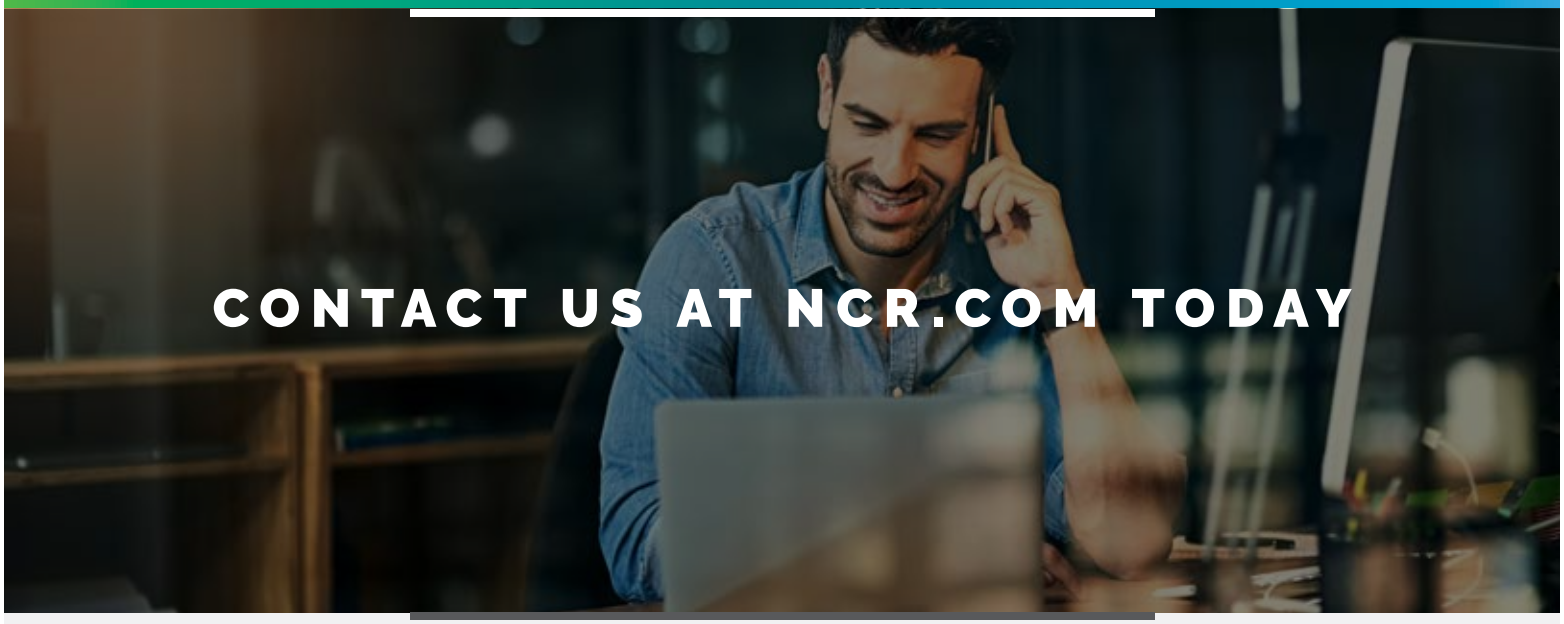
As technology starts to erase the traditional constraints of space and time, the winning Financial Institutions will be those offering the human, face-to-face experience in branch, via a call center, through remote video ATMs, and through the customers' own device. They will be present at every stage of the buying cycle, ensuring that the service levels and human engagement that customers want, and on which loyalty depends, are never compromised.

Disruptive technology becomes mainstream

34% of North American mass affluent households* have experienced video calling in the past year. But what does the industry think of omni-channel video advisory banking?

- 70% prioritise video banking availability
- 60% prioritise video availability for advisory services
- 93% expect higher customer satisfaction

* Those with an annual salary of $75,000 or more



WHY NCR?

NCR Corporation (NYSE: NCR) is a leader in omni-channel solutions, turning everyday interactions with businesses into exceptional experiences. With its software, hardware, and portfolio of services, NCR enables nearly 700 million transactions daily across retail, financial, travel, hospitality, telecom and technology, and small business. NCR solutions run the everyday transactions that make your life easier.

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