

Never Mind Building the Ultimate Branch, What Does Your Next Branch Look Like?

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Soon after the new millennium began, reports started emerging about the continued importance of the bank branch to the consumer. Several key indicators pointed to not only a persistent use of the bank branch by most households, but in some cases a clear *preference* for the branch over many other channels in the bank's network. This news was met with interest and concern by the financial services industry because investments and innovation in the branch had been relatively minor compared to spending in the ATM, call center, and online banking channels. In the face of a clear consumer preference for doing business in the branch, banks sought to mobilize resources and do something about this important, yet neglected, delivery channel.

Ironically what followed was a movement by the banks toward beautification of the branch and an ineffective attempt by many technology providers to provide an ideal technical solution to the industry. Few institutions changed the way the bank branch operated to take advantage of a clear demand by customers to conduct business in person. Fewer still took the opportunity to think about the ultimate fate of the bank branch and design a reference branch architecture enabling a flexible and operationally efficient environment that could both respond to the immediate need and stand the test of time.

At this moment, we understand a few trends that will definitely influence how the branch *should* operate, and these trends give us the opportunity to respond by implementing changes that should also allow the branch to respond to many unforeseen market conditions. These trends are what drive the need for something like a reference branch architecture.

You Don't Have to Know What's Coming to Prepare Yourself

Some banks have instituted changes that make the consumer's life somewhat easier at the branch and may even increase sales there today. But still lacking is a coherent strategy that addresses the challenges to today's branch operational model and is flexible enough to meet unknown challenges in the future. Some of today's issues that have critical impacts on branch operations include:

- Self-service kiosks in widespread use that are training a generation of consumers who will more readily substitute the automated experience for the full-service branch transaction.
- Online banking systems that are becoming more functional every day. Evidence already shows that at the affluent end of the banking market, consumers prefer the self-service tools of online banking to working with live staff at the branch.
- A worldwide move away from the paper check as a payment instrument. As alternative payment options proliferate, consumer checks may someday disappear altogether, having a fundamental impact on the need for tellers.
- Market-impacting events, such as the devastation of Hurricane Katrina or the sub-prime mortgage lending catastrophe, that can trigger basic but acute needs that are best met by human services, whether in the branch or through the call center.

- A global movement to electronic means of payment, including card and mobile device-based alternatives. The role of cash in the branch should be examined to see what its displacement ultimately means to the branch.

These are a few of the issues challenging the traditional bank branch operational model. From an IT perspective, the key to developing a branch that will operate effectively in 20 years lies not in what kind of technology can overcome these issues today, but in what technology can enable the branch to easily change to reflect the needs of the moment—this is the branch reference architecture. By thinking about technology strategically, bank executives have the ability to create the *Next* branch without a major overhaul of systems. The branch reference architecture also allows banks to create multiple kinds of branches with relative ease and speed, deploying different branch types based on the needs of local markets.

The first step in defining the branch reference architecture is to look at how the branch operates and create guiding principles for the branch's basic purposes.

See, Sell, and Do

Fundamentally, just a few high-level characteristics define the most important aspects of branch operations—"See," where the branch is a media center where customers become familiar with the bank's products and services, "Sell," where the branch is a sales and service center, and "Do," where the branch is a transaction center.

The Branch as Media Center

By representing the bank brand and advertising the bank's products and services, branches have tremendous value as billboards. Marketing to customers and non-customers alike, banks spend significant money in designing and producing materials that they hope will encourage the consumer to buy. But most of today's marketing strategies at the branch still tend to center around printed materials—posters, brochures, window vinyl—that are relatively slow to produce, slow to implement, and slow to change.

Electronic media is much faster, more flexible, easier to change, and can be customized down to the individual customer. Customer check-in, display units, video monitors, and demonstration stations could replace existing printed material and create an environment that is much more effective and engaging.

At a higher level, banks should consider treating the customer visit as a managed event, with clearly defined beginning, middle, and end. Some banks are experimenting with concierge stations where branch staff greets customers at the door. That idea can be taken further so that the customer's presence in the branch triggers a flurry of activities, depending on the purpose of the visit, and the consumer feels well cared for. This is by no means an easy feat as there is a lot of technology needed to make a complex customer visit as efficient and seamless as possible.

The Branch as Sales and Service Center

The two functions customers rely on at the branch, more than any other channel, are initiating a relationship and solving a problem. Although online banking systems are becoming more effective in new account opening, they are not yet replacing the branch for sales of all financial products that the bank offers. The human factor is an important one both in terms of negotiation, as during an account opening, and in terms of trust, an important element of problem resolution.

This is perhaps the most interesting aspect of the future of the bank branch. Once self-service devices have come to support the majority of most trivial functions, and teller staff is reduced to an

absolute minimum, the core of the branch model will be built on the ability to open new accounts and to service customer inquiries and problems. In conjunction with the concept of the branch as media center, branch staff may more closely resemble retail store salespeople who demonstrate, advise, and open new accounts. The key to this evolution will be in making sales and service a much faster and more streamlined process than it is today.

This also leads to the possibility of a smaller footprint for the branch, making it possible to deploy branches at a lower cost and therefore serve markets that wouldn't typically have a bank branch in the area. The branch configuration will become more flexible as well, to better respond to the changing market and the needs of the consumer. The balance of self-service technology and human support won't need to be defined in advance and literally set in stone but will be inherently mutable, giving the branch the flexibility to change as its environment changes.

The Branch as Transaction Center

For many years, the branch has been zoned into three distinct areas: the teller queue, the bank representative area (the "platform"), and the ATMs in the lobby or vestibule. It is not unusual to see as many as 10 ATMs and even more teller stations in the larger branches today. Until recently, these devices and teller staff were necessary to keep up with the heavy workloads, especially on paydays. But in many branches today, 30 to 50 percent of the teller stations are idle, even during peak traffic hours. Between the decline in the use of checks and the alternatives to cash from the ATM, the need for financial transactions at the branch is steadily decreasing and the volume will continue to drop.

Nonetheless, the branch must remain transactionally functional. Checks will always come in, and cash will always be handled in the bank branch. So what is needed is a way to balance the need for monetary transactions with better operational efficiency than we have today. At the heart of this challenge is the role of automation in the branch. Today's consumers are becoming much more savvy with self-service options at other locations such as supermarkets, home goods stores, parking lots, and airports.

Some institutions have piloted "assisted self-service" devices at the branch at which customers can conduct transactions in front of a teller who may be supporting several devices at once. Based on early findings, consumers welcome the opportunity to use the assisted self-service, especially if they can save time waiting in line for a full-service teller and still have the comfort of a teller should they need one. This is just the beginning of self-service outside of the ATM, at least in North American markets. In other parts of the world, differentiated self-service terminals can handle anything from dedicated cash dispensing to bill pay on a bus during a morning commute.

"Stage 1" Technologies—Making Brick and Mortar Nimble

The developments just described require a set of fundamental, "Stage 1" technologies to make them work effectively and to enable agile response as market conditions change.

Laying the Groundwork—The Network

One of the biggest benefits that the Internet had on banking was not the introduction of online banking for customers, but the use of Internet technologies in systems throughout the bank's IT infrastructure. Internet protocol, or IP, will probably become the single most important enabler of a branch reference architecture. IP is what allows voice and data to be converged on a single network. IP is what allows transactions to be routed, split, and directed to multiple systems without the need to specifically connect on a one-to-one basis. IP enables location independence by providing routability and cost-effective voice and video over typical branch communications

networks. Once the initial investment is made, IP also has a lower cost to manage than traditional network protocols.

IP is the protocol for the branch reference architecture. Establishing an IP network in the branch will not only provide the short-term benefits that are needed to address today's market needs, but also become the framework in which tomorrow's needs are supported.

Using Wireless for Flexibility

Given IP as a standard network protocol, the logical extension is to take that protocol and release it from the constraint of copper wires. Wireless capability as a Stage 1 technology allows the bank to reconfigure the physical branch layout and place people and devices in a way that is consistent with the needs of the market and whatever business strategies are developed. Today's wireless communication equipment is reliable, fast, and secure. Branch staff may carry a handheld device to assist customers, and many banks view that as the ultimate goal of a wireless network in the branch. But any device, from ATM to teller station to platform to media center, can be driven from the wireless system. A wireless IP environment in the branch spells the end of costly, time-consuming construction associated with any change to the physical layout of the bank branch.

In addition to a wireless network in the branch, third generation (3G) wireless is ideally suited to become the environment of choice for the wide area network (WAN). Today, 3G wireless is capable of being an overflow or contingency network in the event of a wireline failure in the branch. Important to this strategy will be the control of the *kinds* of network traffic flowing in and out of the branch, and the quality of service (QOS) attributes that these traffic types are assigned. Thus a robust QOS scheme is necessary for both 3G and physical network architectures to ensure that data and voice flows are uninterrupted.

Managing Applications for Efficiency

Also important is the efficiency with which data is transferred between the branch and the regional or central office. The wireless branch enables the bank to respond quickly to changing needs in the market, but it does not eliminate the need to manage the voice and data traffic flowing within the branch and between the branch and the data center. As voice over IP, video, images from scanned documents, and collaborative environments emerge in the branch, the software architecture must be reviewed and its applications tuned to ensure that the network is being used as efficiently as possible. While bandwidth itself is relatively inexpensive today, the demand on that resource will grow to the point where bandwidth will need to seem inexhaustible.

A case in point today is the increasing demand on network resources caused by an explosion of document scanning in the branch. In the United States, the Check 21 legislation allows banks to scan paper checks and forward only their images and associated data instead of the paper check itself. This development has created a growing demand for bandwidth. What used to be a typical check deposit transaction consisting of a few hundred bytes of data is now a combination of an image and associated data that can amount to hundreds of kilobytes.

There are a variety of ways to accomplish application tuning. Rewriting the application (or redesigning it) to use network resources more stingily is one; using network or server-based application accelerators to reduce the workload across the WAN is another. In fact, a case can be made for sending application data over a public broadband network, assuming all security and privacy issues are addressed, so that the bandwidth would be "on demand" to cover times of low or high use.

These three Stage 1 technologies will allow the branch to respond to the changing needs of the market without having to launch long and expensive projects to address each market circumstance as it arises. But by themselves, these technologies represent just a more efficient way of doing the same things we are doing today, leading to some cost reduction. The really interesting changes will come with Stage 2 technologies that can take advantage of the foundation we just built and start to see real business value in the *Next* branch.

“Stage 2” Technologies—Adding Basic Value

While the Stage 1 technologies described above are the first move in the branch banking game, we also require a set of Stage 2 technologies that will enable whatever functionality is needed to realize real business value. The trick, once again, is to avoid thinking in terms of what we need today to solve a specific problem. The following three Stage 2 technologies take advantage of the Stage 1 systems and enable customers and staff to more effectively execute the three business objectives of the branch: Media Center, Transactional Center, and Sales and Service Center.

Celebrating the Customer Event

A customer walking into a branch today is a nonevent in that the ensuing transaction has no clearly defined beginning, middle, and end. The only exception is when the customer reaches the teller window, where the teller system records the transaction time and the receipt issued to the customer marks the end of the transaction—clearly a trivial measure of the worth of the visit.

To succeed as a marketing, sales, and service store, banks must learn to recognize and *celebrate* each customer visit. Unlike retail stores where many customers walk in merely to browse, bank customers come into a branch with a specific goal in mind. And as the transactional aspect of branch banking declines, a greater proportion of customers will be there to learn about, discuss, and buy financial products. The *Next* branch needs to integrate into its reference architecture a way to greet, identify, entertain, and route customers as they walk in the door. Some retail stores, Verizon for instance, use customer management kiosks where the consumer registers an intent to speak to a staff person for a specific reason. Some banks today are experimenting with such systems. Many are finding inefficiencies in staffing by tracking the movement of customers as they come in.

The management of the customer’s visit has two main benefits:

- For the customer, an expectation is set when they can walk in, be greeted, and be told who they will see and how long they might wait. Customers may want to be educated or even *entertained* while they are waiting. In the branch-as-media-center, the consumer does not feel like the wait is wasted time. Customers might even participate in a pre-visit session where important information is acquired—through automated or attended means—in preparation for the sales or service session. Account histories, credit scores, mortgage data, and so on can be collected in advance of sitting with the specialist, and all of that data can follow the customer throughout the visit.
- For the bank, being able to track the demand for certain kinds of specialties provides valuable information for resource management. It also measures the degree to which sales or service opportunities are fulfilled, a measurement that can be used further to manage staff and training. Customer wait times can be measured as well, helping to manage expectations and service levels. If the customer has participated in a pre-visit data collection, the bank specialist can conduct business more effectively or can bring other resources into the visit before the customer arrives.

The goal is to manage the interaction at the branch to delight the customer and to maximize the opportunities for the bank. As a Stage 2 technology, managing the customer visit is the foundation to carrying out marketing campaigns, sales promotions, even service level surveys. The unique and specific technologies built on top of a customer visit management system can be deployed, changed, and evolved to address the needs of the time.

Self Service—It's Not Just at the ATM Anymore

Among branch bankers, and even among machine vendors, the ATM location is often referred to as “the hole in the wall.” This nickname, although not meant to be disparaging, does hint at the role the ATM has traditionally played at the branch—a hole through which money passes in and out of the bank, unnoticed by the staff. To their credit, branch executives have tried for years to expand the role of self-service to include full banking kiosks, educational kiosks, and even kiosks that accept applications, but customers never accepted these devices.

It has taken a world of other self-service paradigms to finally convince the general public that these machines are useful, reliable, and simple to operate. Today they exist in supermarkets, home improvement stores, post offices, parking garages, subway stations, and even restaurants. What the consumer did not accept well in the branch is now becoming a way of life outside the bank.

This is an opportunity for the bank to reevaluate the self-service devices at the branch as Stage 2 technologies in the reference architecture and create an environment where purpose-built machines can handle a variety of tasks for the consumer. In some markets like Brazil and Japan, consumers readily use devices that are specialized to provide bill pay services, depository services, cash-only services, and many other functions that are deployed based on local market demands. It isn't a stretch to imagine a branch where customers could issue their own debit cards, load a stored value card with money, top up a pre-paid mobile device, or even purchase a subway fare.

The Stage 2 technology that enables expanded self-service at the branch is built on device standards and open architecture systems that recognize and interoperate with multiple devices without the need for programming each individual machine. An analogy is the “plug and play” paradigm used by Microsoft Windows to recognize any device and find its device driver to make the machine immediately usable. Technology providers are getting closer to this goal, but we are years away from installing an embossed card dispenser on a desk, turning it on, and letting the wireless network find, configure, and activate the device.

Reverse Engineering—Using People Instead of Software

The final Stage 2 technology is one that could *replace* the need for software and hardware. The weakest point in any process is the one where communication between two links can fail. When this happens during a customer interaction, it is usually the live agent who steps in to correct the mistake. A complete branch reference architecture must have *collaboration* as an important component to ensure that staff can intervene when technology-based processes fail, or indeed to take the place of processes when common sense and teamwork can accomplish the goals through collaboration. And the Stage 2 technology that enriches collaboration is video.

Banks that use video to communicate to and between staff have already shown that communications are much more effective than through traditional phone calls and e-mail. Video conferences tend to be shorter yet more effective, attention spans are better, more information is retained, and leadership communication is clearer and more consistent when delivered over a video medium. It has been noted that video meetings prevent the participants from doing other

things, such as answering e-mails, during the session, leading to more effective outcomes. Video can more effectively convey everything from corporate strategy and news to remote training.

Banks that use video to interact with customers have also shown it to be an accepted and effective way of supporting customers with specialized needs who would otherwise have to wait or receive substandard service. The key with this kind of interaction is to maintain contact between the customer and the local branch staff. In other words, if a customer comes in for a video session with a remote mortgage expert, the local platform representative should remain engaged or *at least* ensure that the customer is comfortable enough with the experience to be left alone with the remote specialist.

Don't Build the Ultimate Branch, Build the *Next* Branch

Using the right Stage 1 and Stage 2 technologies, banks can build a branch reference architecture that will allow them to grow, change, and even shrink their branches as the market demands. The ability to quickly respond to changing market conditions will prove to be a competitive advantage for those banks that can build agility into their inherently static bricks and mortar.

Building the “Ultimate branch” is bound to fail, because you can't build something now that will support the needs of today, tomorrow, and the day after that *and* the branch you need 10 years from now. But by building a branch reference architecture that is flexible and extensible, banks can quickly and more easily create the *Next* branch, and the *Next* one after that, each one serving the needs of local markets in a timely and effective way.

About the Author

Jerry Silva is a longtime veteran of the banking industry, working in various capacities for 25 years. His insight comes from years spent in several technology and business roles for some of the largest retail banks in the US, and from his position as a sought-after analyst covering retail banking and customer experience. Jerry's thought leadership has been shared through his previous work as an industry analyst, conference and web presentations world-wide, and through publications such as the Wall Street Journal, the New York Times, and the Economist.



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