Asian Banker Research

DIEBOLD

White Paper

FOCUS ON THE FUTURE OF BRANCH BANKING

Successful Branch Transformations:

Achieving needs-based sales and service-oriented delivery

The next generation of branch banking in the Asia Pacific region

While in the last years the retail financial services industry in Asia has paid significant attention to the development of e-banking, with many banks rolling out full-fledged mobile phone banking propositions in 2009 in particular, smart banks have never lost their focus on fine-tuning their branch propositions and upgrading their infrastructure, seeing it as a key success element in their overall network architecture as they represent the centre of building sustainable customer relationships and business growth.

Despite criticisms, the predominant branch concept going forward will continue to be the one-stop shop, in particular for local domestic banks. Yet, banks are adapting a more flexible approach. They are building branches that are designed to cater more effectively to surrounding communities and continue to emulate selectively elements of top retailers by offering extraordinary levels of customer experience, service quality and efficiency, simple yet instant fulfilment, and a strong ability to control the selling and buying point.

The timing and degree to which a bank moves forward in transforming its branch network will depend on market factors, demographics, customer preferences and a bank's own financial constraints and staffing capabilities, branch banking is moving away from an undifferentiated, unintentional and inconsistent interaction with the customer to a branded one which is actually valued by all segments because the proposition is relevant.

A major survey by Asian Banker Research indicates that a growing pool of banks have begun assigning more capital for branch transformations. The new wave of branch banking projects addresses the creation of superior front line execution by marrying front line automation, workflow process optimization and the human element. More attention is also paid to interactivity, discovery and instant delivery to assist in creating a market beating customer experience for gaining competitive advantage.

RESEARCH METHODOLOGY

Survey Profile:

Asian Banker Research and Diebold are pleased to present this white paper, which is based on the findings of a regional survey of 24 retail banking executives in the mature markets of Australia, Singapore, Hong Kong, Korea, Japan, Taiwan and emerging markets China, India, the Philippines, Indonesia, Thailand and Malaysia. The respondents represent over 20 different financial institutions that were identified by past and current achievements in branch transformations

Survey Mechanics:

- Regional survey across eleven mature markets in the Asia Pacific region
- Survey period: April/May 2010
- In-depth discussions with key executives of first tier local and international banks
- In addition, the discussions were combined with a quantitative questionnaire to standardise response sets

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Key developments in the Asia Pacific region

While national markets in the Asia Pacific region have specific characteristics in regard to branch banking, such as Australia (less automated but strong in change management), Taiwan and Korea (high in automation but low in front line differentiation) among others, Asian Banker Research identified several key developments:

- The future of branch banking will offer a community-like banking experience, and a high touch personalised feel with large-scale infrastructure capabilities behind it
- Banks are pressured to downsize thrir branch facilities to optimize floor space and improve control of customer interaction, which is often a challenge in large branches
- While banks often try out a combination of branch types, they will continue to emphasize the one-stop shop with elements of retailer, family and lifestyle branch concepts
- Top-tier banks are approaching a critical phase in branch evolution, gradually moving from a 'processing factory' and a liability-driven branch model (emerging markets) to an advisory/asset-based one
- To optimise the value of a branch, best practice banks develop an integrated approach; branches are integrated externally with their electronic and other network points and the surrounding micro-market. They are internally integrated with a bank's strategic priorities, back end infrastructure and staff/branch management
- Though in-store branches are one of the most challenging branch types, banks will increase their proportion by 2012
- It is estimated that currently 43% of all branches in emerging markets and 32% in mature markets in Asia Pacific underperform
- Even with plans, processes and technology in place, retail banking executives reveal an overall dissatisfaction with the results, indicating a widespread need for improvement in hiring, training and front-line tactics
- Branch managers are moving from a business line focus to a market-orientated focus – rise of the owner entrepreneur and multi-skilled front line staff
- Too many branch roles fail to deliver service excellence

Key drivers in branch transformation

Demographics, changing and increasingly divergent customer buying behavior, risk profile and preferences, technology, and network integration are viewed as key drivers that may shape the future of branches in the Asia Pacific region, according to our study.

With the rise of wealth, banks align their branch footprint partially towards an advisory/asset based front line delivery.The combined wealth of Asia Pacific's HNWIs is estimated by Cap Gemini to be growing at a faster pace than any other major region. China and India, where banks put immense infrastructure resources into establishing wealth management centres, are likely to lead this growth.

Banks are facing an increasingly fragmented and diverse customer base exercising different product-dependant risk and buying behaviour, which often obscures the view of the customer. The untapped potential of the unbanked and low income segments presents unique challenges for branches but also new opportunities. Likewise, responding to the needs of the next generation of bank customers which are mobile/online and social media savvy will further change how branches are 'designed'.

To achieve greater access to a broader range of financial products and to increase product, process and service innovation, technology is crucial.

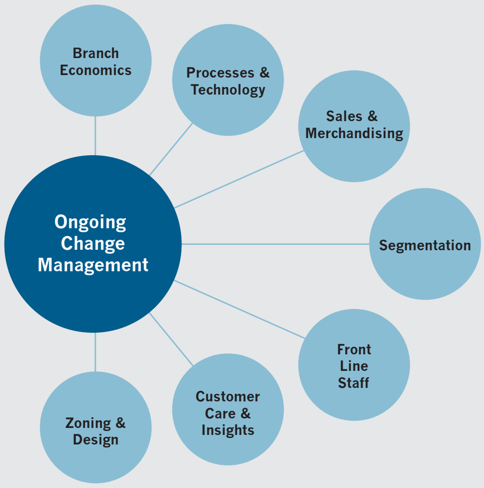
More than 90% of all transactions in mature markets are conducted via non-branch channels. In conjunction with the growing popularity of full-fledged mobile phone and internet banking platforms, banks view branch transformation exercises as dependent on electronic channels. In emerging markets, banks have begun to migrate customers directly to the mobile channel. Orchestrating these touch-points will require an integrated customer information system that operates in real time, a level of functionality that remains elusive for many institutions in this region.

Cost structure and break-even time

Taking a branch through a comprehensive upgrade is often not achievable. Only a few institutions will invest simultaneously in all domains, so competitive and market realities dictate that some branch upgrade activities are valued more than others. If transformation is not viewed and executed as ongoing change management, the results are likely not sustainable.

The physical nature of a branch network makes it an expensive proposition to upgrade, and thus the motives to undertake branch transformation are mainly cost and process streamlining, followed by sales and merchandising. Improving the customer experience and service delivery change has been stated by only 37% as a primary motive to transforming the branch.

Figure 1.1 Key building blocks in branch transformations exercises

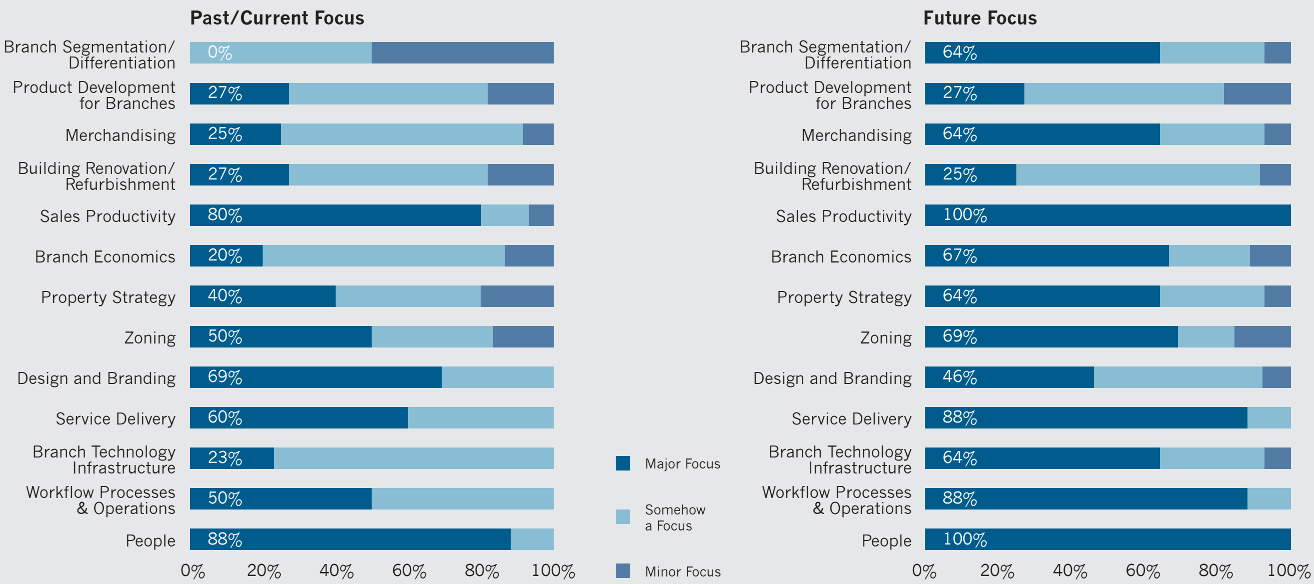


Source: Asian Banker Research

While transformation costs per branch vary significantly, banks in our sample spent more than 55% of their branch transformation budgets on branch overhauls, such as building renovations or refurbishment, while on average around 30% of their budgets are allocated to basic infrastructure. Although, currently less than 20% of budget is spent on service applications, executives have indicated that this level will increase in the coming years.

Executives are also under pressure to reduce the break-even time for capital and operational expenditure of new branches. Well-managed one-stop shops are able to break even within the first 24 months while wealth management and consulting branches on average within 12 months. Micro branches, which banks increasingly add to their network, are the most challenging branch forms and can take up to five years to recover operational and capital cost, as observed in the survey.

Figure 1.2 Past and future focus in branch transformation



Source: Asian Banker Research

Needs-based selling in branches

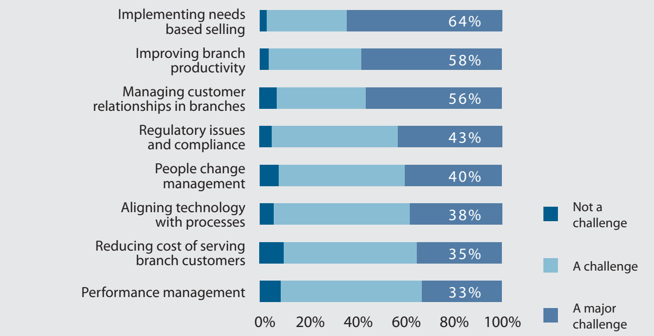
While 85% of respondents in our survey carry out simple needs-based analyses only, when it comes down to the crunch and sales staff miss targets they all start to push products. As factors such as centralisation and the simplification of transactions, reduction in waiting time and sales staffing seem to have little effect on sales productivity and revenue contribution, high performance branches are characterised by a tight centralisation of sales management, deep sales coaching, and an incentive system that rewards quality, sustainability and volume. Also, activity management comprises of a simple monitoring system that minimises metrics, has clear links to sales outputs and focuses on action and behavioural change instead of science.

Improving front-line branch skills

Executives highlighted that the process of improving staff and advisory skills is often impeded by staff locked in to too many transactional and administrative tasks. Also, as banks have standardised communication and interaction protocols, front liners are often challenged by ad hoc situations and exceptions that demand personalities that can quickly pick up threads and solve issues. It requires a certain type of person that not only is certified and trained, but savvy enough to see what is happening in the market and engage in a needs-based intelligent conversation with customers. Unlike in Europe and the US, customer interaction is often intermediated. Most clients that a bank wants to have coming to the branch manage their banking errands, daily or weekly, with runners or housekeepers invalidating sophisticated CRM systems and allowing limited room for building direct client rapport. Active outbound calling and a 'hunter' type of sales and service approach is required to bridge this divide.

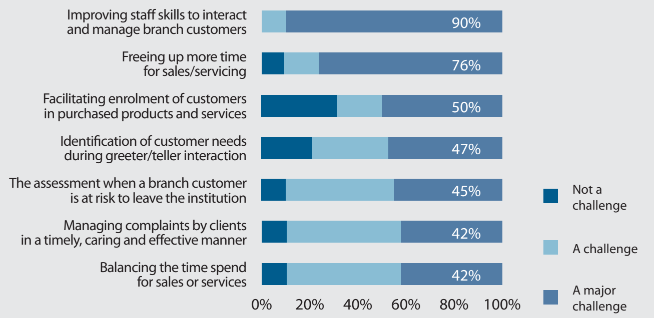
While front-line staff training is still heavy on compliance and transaction issues, in some instances branch personnel are trained for up to three months before being deployed to the front line with a key focus on exceptional service quality.

Figure 1.3 Key challenges branch executives face in branch banking



Source: Asian Banker Research

Figure 1.4 Key challenges in managing customer relationships inside branches



Source: Asian Banker Research

"Convenience, accuracy and speed will be soon no longer be strong differentiators; product and back office strength will become commodities; the only thing that will count is superior quality interaction and service."
Branch Executive, Thailand

"Increasingly, the branch is going to be more about complex sales, and customers still want to go there when they have a real service issue and they want to look a person in the eye and know that it is going to be taken care of. The challenge is how we make sure, as there is less traffic going through the branch, that we are able to take each opportunity and cross-sell."
Branch Executive, Hong Kong

Account opening

Additionally, 83% of all banks in the region have streamlined their account opening process in the last 24 months. Key qualifiers for best practices that have become common standards are instant PIN setting for ATM cards, internet and phone banking and instant issuance of debit cards, electronic form filling, a single account opening location at the consultation booth, and a turnaround time that balances speed with a customers on-boarding experience and needs-based dialogue. The level of automation at account opening has reached on average 75%, and executives said this will improve to 90% by 2012.

Figure 1.5 Account opening workflow and key qualifiers

First Contact	Receptionist	Teller (Meet Greeter was out)	Receptionist
Account Opening Location	Form Filing at 1. Reception 2. Consultation Area	PC Stand	Consultation Booth
Form Filing Method	Paper	Electronic	Interview + Paper
High Level Process (including post notification load)	1. ID Check 2. A/C Explanation 3. Form Filing 4. A/C Explanation 5. Sign Application 6. Staff Enters Details into System 7. PIN Setting for ATM Card & Phone Banking 8. Receive A/C Package	1. ID Check 2. Form Filing by PC 3. Wait 10 Minutes 4. Sign Application 5. Receive ATM Card 6. PIN Setting for ATM Card by PIN Pad 7. Channel Explanation Navigation (optional)	1. ID Check 2. Tell Staff Address, Birthday, Employment Status 3. Staff Input Data into System 4. Write Name and Stamp on Pre-Printed Application Form 5. Receive A/C Package
Account Opening	60 Minutes	15 Minutes	30 Minutes
Time to get ATM Card	3 Days	Instant	5 Days
Onboarding Experience	●	○	
Simplicity	○	●	
Relative Speed	○	●	
Needs Based Dialogue	●	○	

Qualifiers ○ Absent ● Provided

Source: Asian Banker Research

Making automation work

Achieving a highly differentiated front-line branch proposition, 92% of branch executives said they will further increase their levels of automation. External differentiation and internal streamlining should guide the process, and the results of an over-focus on a single aspect will not yield much if things are not thought through first from a service delivery and change management point of view.

It is equally important to be fully aware of the kind of branch customers you want to attract and the kind of new work-flow created through enhanced automation. To make automation work, banks need to keep in mind their core values and operating principles (e.g. reduced document flow, no cash teller, faster filling out of application forms) and then find creative solutions that allow an arrival at what a customer tries to do without making the customer experience cumbersome, while still keeping cost down.

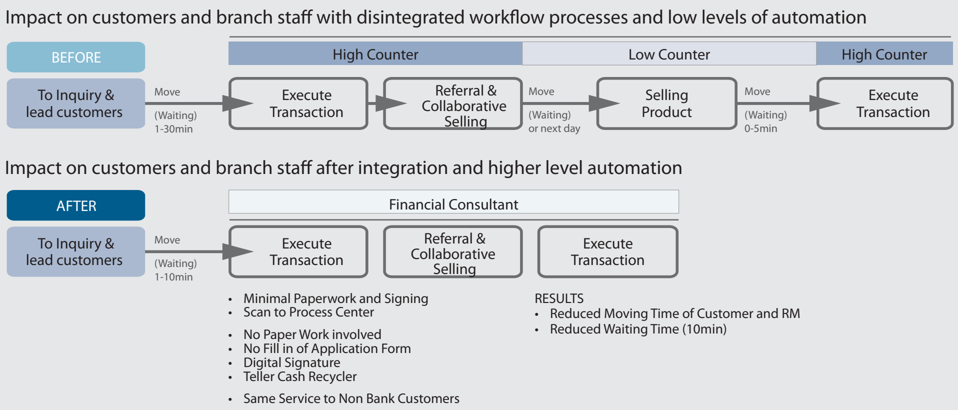
In leveraging automation, the questions that financial institutions need to answer are:

- What do our key customers want from branch banking?
- Are we putting the right branch staff around improved levels of automation?
- Is it user friendly for our branch staff?
- What aspects of branch banking should not be automated?

Increasing the quality of customer interactions

By activating the concept of a 'single one-stop branch service', banks deploy a combination of automation, simplification, standardization and centralization to increase the quality of customer interaction. Executives try to minimize time spent on form filling and multiple movements by customers and financial advisor between entering the branch and finalizing the transaction. This entails tearing down rigid branch hierarchies and narrowly-defined staff responsibilities (e.g. the financial advisor's role is not limited to asset allocation advice). While the current situation is that desk operations and sales are clearly differentiated, a convergence of duties will occur in the next years in the more mature markets that blurs the line between operations and sales. The shift towards a multi-functional branch staff is inevitable, and the personal multi-functional banker/teller/financial agent will need to address all customers' needs. The back office, with an integrated platform as communication media and efficient operations centre, supports these services

Figure 1.6 Impact of workflow processes and automation on branch staff and customers

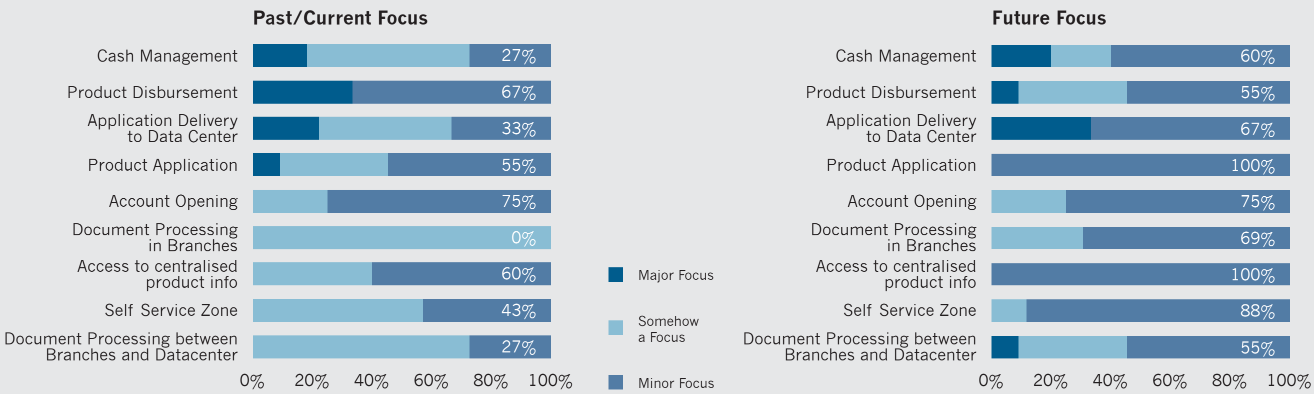


Source: Asian Banker Research

Shifting focus in branch automation

To increase the service quality in branches, document processing and cash management will see the biggest improvement going forward.

Figure 1.7 Past and future focus in branch automation (2010-2012)

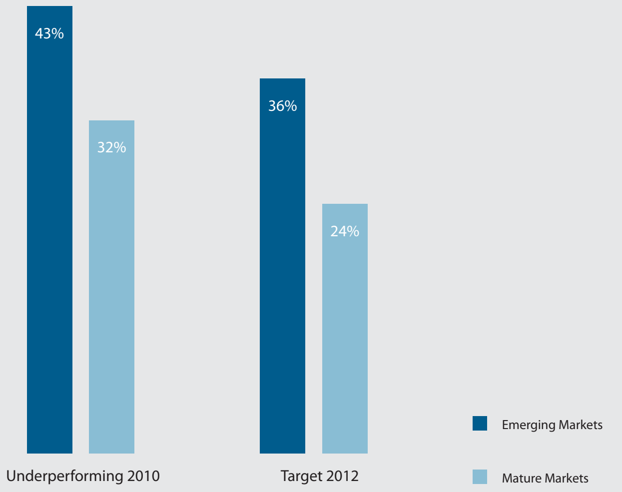


Source: Asian Banker Research

Underperforming branches

Key reasons why branches often underperform are often a combination of branch location, format and activities. Regarding to business activity, cost reduction is often not linked to specific plans to reduce work loads affecting branch activities. And while there is a risk of standardised facilities that create a lot of unused capacity, the key is to balance complexity versus a single operating branch format. Best banks maintain a certain density level to grow share in micro-areas instead of broad coverage.

Figure 1.8 Portion of branches (%) that are underperforming in the portfolio (viewpoint of executives)



Source: Asian Banker Research

Optimising time

Optimising time for front-line staff is a critical component for creating a sales platform at branches. Though rationalisation activities in a branch are important in training front line staff on the behavioral change they have to undergo to create a high performance branch, it is a gradual shift and may take several years.

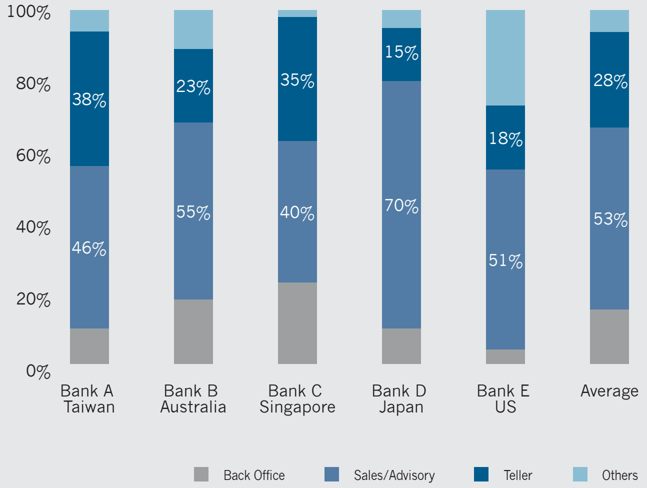
Drivers of Time Rationalisation

Teller
- High degree of transaction migration (deposit automation, web, contact centre)
- Efficient teller platform
- Activity targets for tellers

Sales/Advisory
- Efficient credit processing
- Straight through processing
- Advisory time management
- Identify and maximise cross sell
- Performance manangement
- Post sales management

Back Office
- Routine processing largely centralised
- Account maintenance activities minimised
- Paperwork removed
- Processes/Operations standardised

Figure 1.9 Time-spend by activity for branch staff



Source: Asian Banker Research Note: * Mass Customers

"In any transformation, the ones that generally fail do so not because they were not good ideas; they often fail because people aren't getting behind them, so we spend a lot of time on human resource change management. We have a training programme to make sure we have the right people with the right attitude that understand the context of what we want to achieve, that they practice the sort of behaviour that we want and they set themselves goals, combined with targets that will come from this behaviour. Branch transformation is a continuous improvement process"

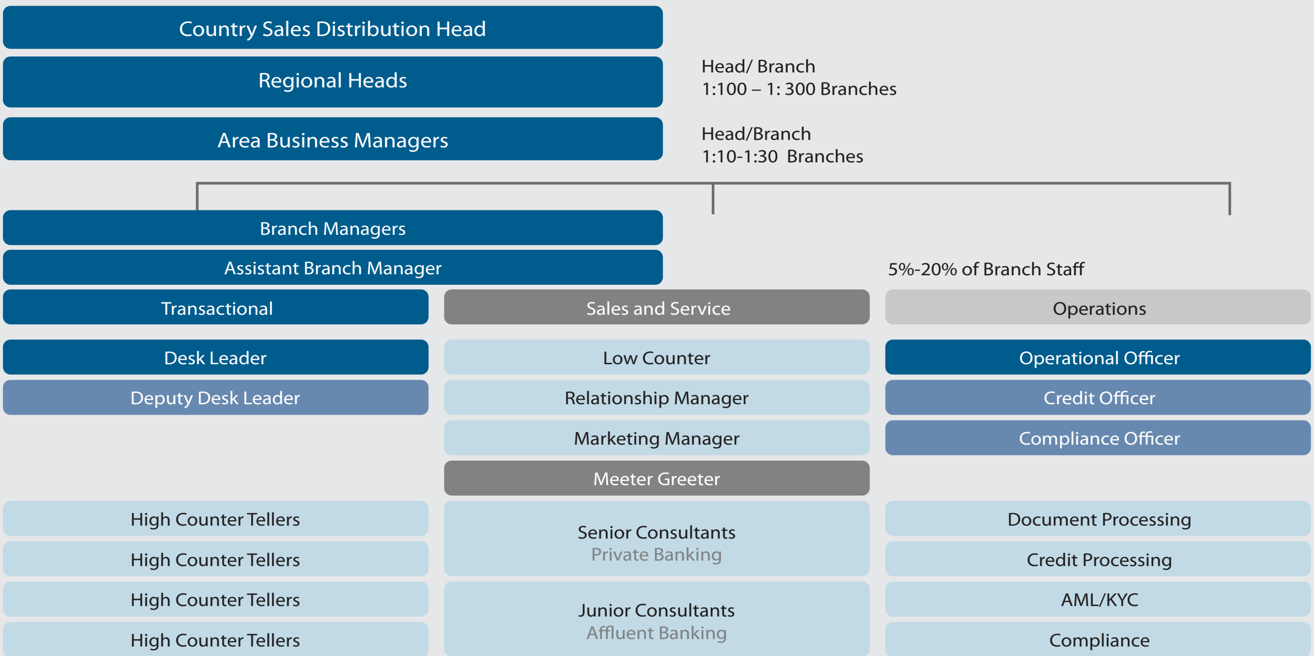
Branch Executive Australia

Rebuilding branches and branch managers

A revolution has been taking place in both retail and business banking for many top tier banks in the Asia Pacific region, bringing the bank manager back into local communities. Banks broadened the role of branch managers from putting focus on single business lines to that of a market manager in charge for nearly everything with full business ownership. As “owner-entrepreneurs”, their roles are also for actively building customer relationships and loyalty, and account opening.

Business is actually run from the branch bottom up, with support from headquarters. Customers know their bank manager, if he or she is made visible on the floor, and the bank manager has all the answers. Banks are transforming their businesses and are putting customers at the heart of everything; that means re-investing and re-building front-line teams, including branches and branch managers. Branch managers are given greater authority, the power to make decisions on the spot for customer. And with greater autonomy and accountability, branches are able to develop stronger local business across regions, creating a range of opportunities to meet the different and often unique customer needs.

Figure 1.10 Front line composition of a full one stop shop branch (150-400 m2)



Source: Asian Banker Research

Our research shows:

- Too many branch roles hamper customer servicing
- The rise of multi-skilled branch staff and “Universal Associates”. For micro-branches, banks have already begun to eliminate teller lines or convert them into multi-function stations (sales and service)
- For every 100 m2, banks add on average five staff to a branch
- The operations team is not stationary at the branch any longer but mobile teams serve particular areas.
- Best practice banks train branch staff up to 12 weeks, with a focus mainly on customer service training, and then process, compliance and administrative tasks
- In some instances, we observed that branch managers had 20-30 years experience and in mature markets could earn bonuses of up to $70,000
- The retention and training of credit officers or operational staff as meeter greeters or RMs has proven unsuccessful

Branches will remain a cornerstone of the ongoing relationship between financial institutions and their customers, and continue for now to be the channel of choice for complex interactions and discussions. Simpler transactions will continue to move to e-channels, but it is likely a multi channel strategy where the customer decides which network points are best for them.

While customers in urban areas demand convenience and instant fulfilment, many branch sites in rural areas in the Asia Pacific region often function as both facilities for basic financial needs and community meeting points. Customers in those sites demand a different approach compared to metropolitan areas. In many cases, where the micro area does not commercially support a full-fledged branch, banks have to think out of the box to reach new customers with downsized micro branches or alternative distribution points. They have forged alliances with existing distribution outlets such as postal offices or retailers or to expand its branch network at low cost. We observed that successful branch banking also includes a firm grasp of customer's life/work commuting pattern, according to which banks can configure its hubs and spoke network points.

Customers are not longer a homogenous group but are becoming increasingly fragmented in their values, preferences and buying behaviour. In conjunction with higher automation we will see a refocus on the personal interaction between customers and staff, rather than transaction processing. As result, more varied footprint/branch configurations to cater for varied demographics and geographies will emerge which may also see potentially smaller branches able to provide a richer range of services to manage a micro area with its specific price, product and service parameters. This approach also has to break with the pursuit of efficiencies and standardisation that tend to base market decisions on system wide averages. To reduce this complexity, back end support and large scale infrastructure capabilities are necessary. Back end systems will support multi products, multi channels and multi entities. We may see out of the box, reusable features an processes managed by rules rather than software codes, strong process management enabling the industrialization of variances such as to develop once, reuse many times in many contexts.

The impact of electronic channels on branch banking will shift attention to the interdependence rather than independence of network development, an area where financial institutions have just begun to make practical steps into a consistent cross channel delivery. While previously interaction was thought of as between the branch and the self service zone, today branch development and process integration with electronic channels is crucial. Booking an appointment at the branch via internet or call centre is becoming standard. Yet, it is not any longer better communication between branch network points only.

A greater integration between consumer devices and bank devices (e.g. mobile phones, readers) leveraging touch voice and movement rather than point and click interface. Responding to the next generation of bank customers—where expectations are increasingly geared towards instant delivery and 'always on' connectivity—is becoming the new frontier in merging technology and IT successfully with the human interface.

Fundamental beliefs about the future of branches

Ultimately banks want a higher loyalty share and more spend from their customers. A consistent and intentional service and sales delivery is considered crucial to accomplish this. But the way branch banking will shape up in each bank depends on the senior retail management executives and their fundamental beliefs and macro scenarios:

- "The branch is the core customer contact point in building multi channel capabilities, the origination of all relationships with the customer"
- "The internet is the branch"
- "The ATM is the micro branch where branches cannot be run commercially
- "The starting point for channel management is our customers—they communicate to us not via channels but multiple access points. All network points enjoy equal importance and attention"

As financial institutions in Asia Pacific take branches through a holistic re-development or transform sales productivity, front line skills and optimising workflow processes are considered critical elements for branch executives. The Asian Banker recently met with John Deignan, vice president, chief marketing officer, Diebold, a global leader in self-service and security solutions and services, to get his insights on the topic:

What do you see as the biggest challenges facing banks in the Asia Pacific region today as they seek to transform their branches?

There are three primary challenges facing Asia Pacific banks today. One is shifting the skill sets of staff members from a routine, transactional-based role to a consultative advisor role that generates sales. The second challenge touches on technology and the ability to integrate various operating systems, such as the front-end channel with the back-end channel, to enable a robust, streamlined enterprise monitoring and management system. Lastly, banks are facing overly long break-even periods for newly-transformed branches. The ability to decrease this break-even period will allow banks to benefit much more quickly from a revenue perspective.

What global insights can you offer towards successful branch transformations?

Successful branch transformation projects share the following key success factors:

- A clearly-defined strategy and a set of objectives that guide branch transformations and ultimately provide a method to measure their success
- Top management commitment and involvement—it is more than just transforming the branch, it is about transforming the entire organization
- Employee training and education
- Managing consumer expectations and guiding them in the new environment

What role will cash automation play for banks in the future?

Cash automation will play an increasingly important role for banks. With the amount of cash in circulation growing globally, cash replenishment costs are driving the need for banks to build process efficiencies.

In addition to cash automation providing operational efficiencies, it impacts security by helping keep bank employees more secure, as they are not required to replenish ATMs as often.

In order for banks to shift from the transaction-based teller role to a more consultative selling approach, automation is crucial. It's the key enabler of any branch transformation strategy.

What about software applications?

Deploying an efficient software platform is extremely important for enabling operational efficiencies. It is recommended to choose a software platform that allows for:

- An intelligent cash optimization strategy
- A framework for channel integration
- A sales platform for services
- The integration of new devices as needed
- Logical protection

How does Diebold help banks improve branch performance?

We design our solutions and services around four critical business priorities for our customers: operational efficiencies, security, growth and retention and the consumer experience.

We listen to our customers' strategies and key objectives and work to form a partnership before suggesting solutions. We consult with them, understand their challenges and lead them to a solution that addresses their unique needs for today–all while keeping an eye towards the future. Our goal is not to address only our customers' needs today, but to anticipate their future needs and provide solutions and services that can grow with them.

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- We help businesses benchmark their operations and competitiveness against industry best practices.
- We create communities for the industry to respond to global trends in the most creative way possible.
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Learn More

As your financial institution pursues building high performance branches, the insights provided in this survey can help serve as a guide. We encourage you to contact The Asian Banker or Diebold to learn more about the solutions and resources available to assist you with your strategies.