World Branch Report 2017

Digital Bank Transformation: The Evolution of Branch Banking

Efma | Synechron
Digital / Business Consulting / Technology

Efma and Synechron are proud to present The World Branch Report 2017, entitled "Digital Branch Transformation – The Evolution of Branch Banking." Together, we surveyed c-level bankers from across the globe in order to examine the role bank branches play in the current digital era and in a time of mobile-first thinking, and gathered insight into where branch banking is trending.

This report was focused around four key areas:

The Market:

What is the current state of the bank branch?

Business:

Where within the branch are banks investing?

Technology:

How can cutting-edge technology disrupt the branch model, and what innovations do banks deem viable?

Operations:

What role will people play in the branch of the future?

In examining the broader market challenges, business considerations, technology decisions and the role of personnel in the bank branch, it is our belief that the resulting data offers valuable insights into how the retail banking industry is addressing physical distribution, and the impact of digital convergence in shaping the future of customer experience in the branch. Ultimately, these insights should help guide banks as they embrace change, and embark on their own next-generation, bank branch initiatives.

Index

Intro

The Future of the Branch is Bright 01

To Branch or not to Branch... 05

Section 1
From Branch to Digital

Defining the Relationship Between Digital and Brick-and-Mortar Bank Branches 07

Market Perception of Branch Value 11

Challenger Banks in the Digital Age 15

Section 2
Branch Investments

Innovation is Key: Approaching Digital Transformation Within the Bank Branch 17

Key Areas of Investment 21

The Evolution of the Café Branch 23

Section 3
Emerging Technology in the Banking Branch

Catering to Digital-First Consumers in a Physical Branch 27

The Technology Inside the Branch 31

Emirates NBD: Digital-Driven Customer Service 35

Section 4
The Future Role of People in the Branch

Man vs. Machine: What Does the Future of the Bank Branch Mean for the Banker? 37

The Role of People 41

Alternative Bank Branches: Humans, Humanless and Robots 45

Conclusion

No-Size-Fits-All: Where do Bank Branches Go From Here? 49

About the Authors 51


14:59 PM
MOBILE BANKING
Current Account
$42,856.63
MOVEMENTS
cactus RL store online
cash withdrawal
invoice
electric company SL
cash withdrawal
-$98.58
-$100.00
-$34.28
-$45.46
Personal Loan
$2,856.63
Mobile Payments
$1,217.67
Credit Card
$1,000.00
Savings
$1,234.53
Earnings last month
$2,257.57

The Future of the Bank Branch is Bright

The branch channel has been the primary foundation of consumer and business banking for centuries, but as FinTech disruption and a digital-first mindset have spearheaded a cultural change in everyday banking over the past few years, many banks globally are questioning the business value and operating model for brick and mortar services to their customers.

According to the Federal Deposit Insurance Corporation, Chase reduced its branch presence by 190 locations, a 3.4 percent decline, from 2012 to 2016. Bank of America closed 243 branches (16 percent) in that period and Citi closed 302 (28.5 percent). In the U.S., Wells Fargo announced in July 2017 it would close 450 branches, and similarly in the UK, HSBC confirmed it would close 62 branches in 2017, and Lloyds Bank 100 branches. The World Bank noted similar trends between 2012 and 2015, particularly in European Union countries (down 17 percent), notably led by Spain (19 percent), the Netherlands (29 percent), and Italy (12 percent), with each seeing significant reductions in the years since.

The trend is clear. Banks are, indeed, consolidating their branch network footprint due to escalating operating costs and other factors, but it would be misleading to suggest that banks closing branches means the bank branch is dead.

To the contrary, at the same time banks are closing branches, they are also re-imagining the branch model, and in many cases opening new branches powered with innovative digital solutions that provide unique customer services never available before.

In a global survey of senior bank decision-makers conducted by the Efma and Synechron, a leading Digital, Business Consulting, and IT Services firm, that is exactly the conclusion reached. Respondents answered a series of questions across four key areas:

- Market perception of branch value
- Key areas of branch-related investment
- The technology inside the branch
- The role of people at branches

Based on the responses, the future of the bank branch is bright – at least for now.

Market perception of branch value

Most importantly we wanted to understand the future potential for the bank branch, and the current market perception around the present and future value the branch can offer. The study also examined the top service lines supported by the branch physical distribution network. It then went on to a readiness assessment which reviewed participants' current state on the digital branch transformation spectrum and where they saw the most opportunity for branch transformation.

The survey found that most banks agree that the bank branch is still highly valuable for customer acquisition, brand awareness, cash management, and cross-sell opportunities, and they're planning to further invest in branches.

- 88% either strongly agreed or agreed with the statement Bank Branches add value to my customers. Interestingly, no one outright disagreed with the statement.
- Branches provide the most value related to customer acquisition, brand awareness, traditional services like cash management and as a means to cross-sell and up-sell.
- While there are still mixed opinions on how to rethink the branch distribution model, the number one answer at 39% was that respondents plan to decrease their branch network but invest in changing the branch model. After that, the next most popular answer was 24% who instead plan to increase their branch network and invest in changing the branch model. This means that 63% plan to change their branch model with the difference being whether they increase or decrease the number of branches While doing so.
- 63% have developed a future branch or prototype, or are building or conceptualizing one; while only 8% had no plans to do so. 20% of those total respondents are already planning to roll the future branch out as a standard.
- Branches were scored better than digital-only channels for providing specialist advisory services, the most convenient for developing relationships and the most appropriate for supporting small to medium cash business.

Key areas of investment

After validating that global banks still see present and future value in the bank branch model, the survey looked at key areas of investment related to the bank branch including how much of their operating cost is attributed to the branch network, anticipated budgets over the next 12 months, which bank executives are sponsoring and driving branch transformation, and what is considered during the process.

The research reaffirmed that branches still have high overhead costs which need to be addressed, but interestingly, Retail or Consumer Bankers are predominantly looking at how digital transformation can be used to improve the customer

The Future of the Bank Branch is Bright

experience/engagement and evolve the role of their branch staff, rather than operating cost and reducing FTEs being the motive for investment.

- 30% said 51-70% of their costs come from the branch network and 26% said 25-50% does.
- Branch transformation budgets are split, but the leading range is 15-24%.
- 58% of banks have tasked their Retail / Consumer Banking Group with Branch Transformation and 24% have raised it up to the Board/CEO. Only 6% have placed this within their Digital team and only 6% within Marketing.
- The top focus area for branch transformation is to improve customer service/engagement (42% identified this as a priority) and evolve the role of branch staff (40%). This, however, is followed closely by introducing digital interactive experiences (38%) and self-service automated technologies (36%).
- Surprisingly yet overwhelmingly, 40% of firms want their branch to communicate "We are a traditional, trusted and secure financial institution." The next most popular answer after that was that their branches "provide community and collaboration" (26%).

The technology inside the branch

After determining that banks are still planning to invest heavily in their branch model, they'll need to decide where to make that investment count the most. The next set of questions examined the top technologies to invest in within the branch to support business goals related to areas like self-service, video chat, gamification, and other emerging technologies.

In this area, respondents cite that the top technologies being looked at to improve self-service, staff support and to appear cutting-edge are respectively, Cash-in / Cash-out and check deposits, Tablets with CRM, and touch screens (including walls, tables and tablets).

- Overwhelmingly 83% of respondents say Cash-in / Cash-out and check deposits is the most effective self-service function in a bank branch.
- The most popular use case for video chat within the branch is specialist advisory services.
- Tablets with real-time CRM and digital experiences to assist sales/advance are the top technologies being looked at to aid bank staff.
- The top two uses for Gamification are edu-tainment about products and services (38%) and entertainment while waiting (27%).
- The largest % of respondents say that touch screen devices (walls, tables, and tablets) make the digital branch appear the most cutting-edge over all other technologies.

The role of people

While technology will undoubtedly play a key role in the branch of the future, it will also be critical for businesses to think about how staff are leveraged in the bank branch of the future, particularly those enhanced by digital solutions. The survey examined what the role of people should be in the branch of the future, humanless branches, people potentially being involved in credit decisions, plans around hiring / headcount reduction, and what uniquely human qualities add the most value in the bank branch.

The analysis found there will likely still need to be a role for people in the branch of the future, but it will be a smaller role than today focused on bringing an emotional or relationship connection to the branch.

- The top areas where people can add value in the branch are advisory (73%), sales (70%), customer service (51%), and as a universal banker (41%).
- Opinions on how people are used to support credit decisions vary greatly with 38% saying credit decisions are best managed in a centralized model, 35% saying credit decisions are best handled by branch staff, in a decentralized mode, and 30% saying credit decisions should be made entirely by technology or AI.
- 62% plan to reduce overall digital headcount across bank branches; however, at the same time, 97% said only people could bring an emotional connection to the branch.
- In addition to providing an emotional experience, branch staff also bring more personalized experiences (76%) and the opportunity to build a trust-based relationship (62%).

The Efma-Synechron survey overall found that banks globally agree that the branch is still an incredibly valuable channel. Many of them are rethinking their current branch model to incorporate digital elements that will allow them to deliver more value through the branch at a lower operating cost. The top strategic focus area currently is to improve customer engagement, and therefore customer experience is at the center of the bank branch digital strategy, particularly when selecting technology solutions and the overall ambience of the branch interior design. This will mean offering Check and Cash Deposit for effective self-service features and embracing technologies like video chat to empower remote specialist advisors to deliver a 24/7 customer experience. That being said, these technologies also become enablers for the staff in the bank to provide improved and personalized customer experiences while still maintaining an emotional connection with the customer.

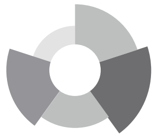
The Future of the Bank Branch is Bright

Branch Consolidation

Banks continue to consolidate their branches globally.

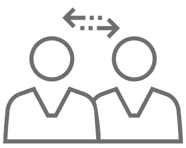
Technology

83%
Cite cash-in/out and check deposit as top branch tech spend



Investment

58%
Tasked with Branch Transformation have a Retail / Consumer Banking Title



Branch Value

88%
Said the Branch adds Value with top value adds:

- Customer acquisition
- Cash management
- Cross/upsell

Branch re-imagination

However, at the same time banks are investing in re-imagining the branch.

People

People add emotion and trust to the branch experience

Customer engagement and experience must be at the center of the branch strategy.

To Branch or not to Branch…. is that the right question?

David Horton, Head of Innovation, Synechron

The quest to justify banking's oldest distribution channel continues despite the wonders of self-service automated kiosks and the growing adoption of mobile banking. The arguments for and against branch banking are well publicized these days, and yet we continue to debate the subject year after year.

On one hand, we have the argument that the branch is an expensive operating expenditure that does little to meet the expectations of the millennial customer and has been made redundant by superior and contextual advice through mobile apps. Teller per transaction costs are increasing, and people are using more convenient ways to conduct their everyday banking needs. Remote check deposit, self-service kiosks, smart ATMs, digital channel migration and video chat bankers are all gunning the traditional branch model down. All the logic, statistics and key performance indicators about branch banking suggest that its days should be numbered.

On the other hand, there are those that say it doesn't matter how good your mobile solution is, when you REALLY REALLY need to do something of importance that concerns your financial wellbeing, you want to do it in person, and in a branch - period! While the digitization of banking is creating disruption in the industry, it is still not executed to a level needed to displace the branch value proposition. Customers with complaints, or in need of specialist advice like retirement planning, or their first mortgage, still want to visit the branch and speak with a trusted advisor. Some customers, particularly small business owners, still want to establish a relationship with the branch manager because there is more to their financial situation and needs than what an automated decisioning solution can compute. Others want to just open a basic checking account in a single branch visit and walk away with a debit card, check book and active account number in a few minutes. Oh and what about the brand?..... the branch still represents something tangible, something real, and when you are talking about an industry that sells 'trust,' people want a place they know their money is safe. All the logics, statistics and key indicators about branch banking suggest it is here to stay.

It is difficult to argue with either viewpoint, but perhaps the question should not be whether we should have branches or not, but rather what should be happening in the branch. Let's for one minute consider what Branch 2.0 could be.

For someone who has done a considerable amount of digital branch transformations for several banks across the globe, I am often questioning what could and should be done differently in the branch. It is obvious that the role of the traditional teller must change, and there are many new technologies from beacons, to touch screen tablets and walls, and natural language Artificial Intelligence that can transform the engagement and interaction levels with customers, but this is still not enough. There are even great solutions for addressing the cost of running a branch these days, like partnering with another retail business like a coffee shop, health bar, post office or supermarket chain. Making the branch a 'destination of choice', is gradually becoming a reality for many evolving banks, and the days of the Barista Relationship Manager could soon be upon us. That said, even that is not enough of a compelling reason to ensure branch survival. For me, I have come to the same conclusion every time.... it's about people. It's about relationships, local knowledge, body language, smiling, being polite and generally trying to help customers that makes all the difference. No amount of technology transformation and digital alternatives can compete with empowered and motivated branch staff.

My benchmark has been, and continues to be, Handelsbanken in the UK. Not only is their slogan "The Bank is the Branch".... but they literally mean it. Don't get me wrong, this is a bank that continues to invest in digitization and equipping their branches with usable technology, but more importantly they are doing something fundamentally different. The branch staff have a say in decisions about their customers. Can you imagine such a thing? The problem with most banks these days is that in their quest to become cost efficient, they have centralized operations, KYC and the risk assessment process, and that means the decision makers sit nowhere near the customer. They are most likely sitting in the head Office, back office or offshore office, and they are not incentivized to keep customers happy, or increase revenue. The centralized team's performance (and ultimately their bonus) is measured with KPIs like compliance, cost savings, and not approving a customer who defaults. The sad fact of the matter is that Risk in most banks these days is often measured when it goes wrong, and very rarely when it goes right. That means that it is much easier to say no to a credit application, and devise a myriad of risk policies to support your decision. I am willing to bet that in most banks where this is the case, they will have a revenue growth curve that correlates directly to the amount of risk exceptions or policy revisions for that year.

This is where Handelsbanken does things a little differently. When customers discuss financing or account opening with the branch manager, that manager has a substantial say in what decision gets taken. It is no surprise that the bank continues to win customer service awards year after year and has enviable numbers when it comes to the quality of its credit decisions.

There it is.... the answer to what Branch 2.0 should be, is not what services and advice can be served through paperless solutions and digital channels, but rather that customer delight is best achieved when you hand the power to serve the customer back to those sitting in front of the customer. Now there is a branch transformation objective that should get bankers thinking, and one that could be more disruptive than any fintech unicorn, if executed flawlessly.

When Synechron and Efma set out to produce The World Branch Report, we developed a survey to focus on four key areas that continue to dominate debate around bank branches, one of which is:

Market Perception about Branches

The report sets out to establish the variety of views that bankers have today about the value of branches for customers, the short- to medium-term viability of the branch and key factors that are driving their opinions. Is the branch necessary for brand awareness, convenience, customer acquisition, customer service or advisory sales? On the one hand, we have the view of the challenger banks who concur that the branch is a relic of old-school banking and is now made redundant by well-designed mobile-first experiences that offer real-time advice and contextual services. Incumbent banks counter that a full-service bank still requires branches to connect with customers, offer value-added advice on complex products and must compliment the transactional services offered through digital channels. A key objective of the survey was to ascertain the perception amongst bankers of how effective the branch is when going head-to-head with the digital alternatives.

From Branch to Digital

Defining the Relationship Between Digital and Brick-and-Mortar Bank Branches

Whether it be blockchain, AI, robo-advisors, user experience or other technologies, digital is changing the landscape for financial services as a whole and evolving the way corporations and individuals alike are governing their financial needs. However, this digital crossroads does not necessarily mean that the traditional, legacy financial institutions will go away.

The Efma-Synechron global survey of senior-level bank decision-makers found that nearly 90% of respondents either agreed or strongly agreed with the statement that the traditional bank branch brings value to their clients. None of those surveyed disagreed with this statement defining the importance of a traditional branch for the customer, even in a digital-first consumer culture. Additionally, the same survey found that nearly half (42%) of institutions would either increase bank branches or keep their current number of branches while investing in changes to the traditional branches. We'll go on to discuss these findings in more detail on page 14. Global tier-one banks and regional banks alike are realizing that they must embrace digital as part of the bank branch experience rather than going toward either extreme in refuting digital, or replacing their current brick-and-mortar legacy institutions to foster more interactive, positive, and meaningful in-branch experiences.

From Branch to Digital

Traditional Bank Branches Are Essential to the Banking Experience

While possibly outdated in some ways in their current form, the traditional brick-and-mortar bank branch is essential to the banking experience. While we are inarguably in the midst of a transformation and reimagining of financial services brought on by digital innovation and newly available technologies, digital technology may not need to replace everything in the traditional bank branch model. While today's banking customers are typically tech-savvy and want quick, self-service digital experiences, the bank branch is still key in several areas for the bank's business and customer experience alike. In order to decipher what areas of the bank branches need updating to keep up with digital transformation, banks must understand where the value is in their current models, how to build upon it, and where their investment will have the most value-add.

A recent omni-channel banking report published by RBR and Wells Fargo reported that while digital services saw the most traffic, more than half of customers used at least three different channels every six months (including digital, ATMs, tellers, and contact/call centers). This implies that a firm's digital strategy needs to consider engagement across all channels and how to create a consistently exceptional experience across all channels. Interestingly, 85% of all sales and referrals resulted from branch interactions, solidifying the importance of multi-channel usage for better business outcomes for the banks while providing a more satisfying experience for each customer.

While bank-teller roles are being eliminated or evolving with banks' investment in digital services, customers still want a trusted and personal human interaction when it comes to advisory services, such as mortgage financing, investment and advisory, or student loan services where the customer will need guidance beyond a self-serving kiosk or simply want to engage in a trust-relationship before making a milestone financial decision. RBR and Wells Fargo's report also uncovered that even millennials, who are known to gravitate toward digital and demand digital and self-service options across industries, value a large ATM network and seek out convenient locations when choosing their banking institution.

By having a physical brick-and-mortar location staffed with knowledgeable bank employees with specialized skill-sets, the bank also has the best opportunity to create relationships with its customers and in turn, build customer loyalty and individualized, specialized customer experiences in ways that digital just cannot deliver due to the human element. This is especially true for regional community banks, where loyalty and personalization are relied upon to remain relevant versus larger banks which can be more competitive on fees. A physical bank branch is also most appropriate for small and cash-only businesses where patrons will need access to cash quickly and conveniently.

Bank Branches Aren't Dying, They Are Evolving

The Federal Deposit Insurance Corporation (FDIC) reported that bank branch numbers increased from 79,884 to 91,861 between the years 2000 and 2016. However, bank branches reached their peak of 98,950 in 2009. This means that while there are more bank branches in the U.S. now than there was 15 years ago, the peak of branch expansion has come and gone, and those that remain are evolving or facing further rationalization and consolidation.

One of the more significant technology investments for banks is the ITM or VTM - increasingly intelligent ATMs, which in addition to dispensing cash like traditional ATMs, accept cash and checks, offer self-service on-boarding with document scanning, biometrics, and advisory services through video chat. For the most part, ATM networks are not profitable for banks but still serve as an important differentiator for brand awareness, product placement, and unique, innovation features like cardless cash and Samsung Pay authentication.

Despite a precipitous drop in overall branches, the Efma-Synechron survey noted that a significant 92% of respondents were moving forward with a branch of the future initiative, ranging from 29% in the conceptualization stage, to 20% who intend to adopt their flagship branch of the future model as their branch standard.

The Branch of the Future - Where Are We Headed?

It's clear that bank branches aren't in danger of extinction - they are evolving to meet the demands of a digital, tech-heavy clientele and overall industry. So what might this entail for the branch of the future?

The answer is a hybrid model that marries digital innovation to traditional, relationship-based brick-and-mortar branch experiences. Banks will integrate new technology that will enhance the current customer experience. Digital has the ability to redefine the role of the traditional bank branch and those staffing it. While many fear that digital will eliminate jobs, the reality is that in the branch, it is better utilized as an assisted experience and as a support tool to make staff more productive and informed.

In fact, banks can even use digital strategies to support their existing training programs or to help empower staff with on-demand knowledge so that they can more easily perform the function of a universal banker. This is where a bank branch can add a lot of value to the customer experience and support cross-sell/up-sell and customer education initiatives.

While the traditional branch model historically was centered around transactions, the branch of the future will evolve to serve as an advisory service hub, supplemented by digital services, and in many cases a 'destination of choice' where non-banking partners are a cost effective fit.

---

[1] *David J Cavell FICB, Omni-channel Banking: Best practice and case studies (London: RBR, 2017), 106-7.*

[2] *Cavell, Omni-channel Banking: Best practice and case studies, 106.*

[3] *Cavell, Omni-channel Banking: Best practice and case studies, 127.*

[4] *Cavell, Omni-channel Banking: Best practice and case studies, 127.*

From Branch to Digital

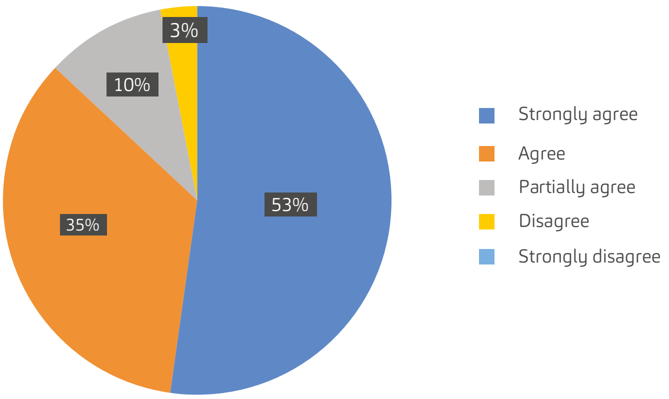
Market Perception of Branch Value

When evaluating the market's perception of the value the bank branch currently provides, Efma and Synechron's research found that overwhelmingly, banks agree that the bank branch is still highly valuable for customer acquisition, branding, cash management and cross-sell, and they're planning to invest in branches.

What do senior decision-makers at banks say when asked directly if the bank branch adds value to their customers?

In fact, 88% either strongly agreed or agreed with the statement "bank branches add value to my customers." That includes 53% who strongly agreed with the statement and 35% who agreed. Furthermore, an additional 10% partially agreed with the statement. Only 2% outright disagreed and claimed that branches did not add value to their customers. Surprisingly, no banks strongly disagreed with the statement. This is incredibly significant because it reiterates that branch closures are not motivated because of a lack of customer value but rather cost reduction and physical network right sizing. The data suggests that the challenge branch networks are facing, therefore, is not systemic or fueled by digital disruption, but rather a clean-up of physical distribution likely caused by acquisition, mergers and lengthy tenancy agreements accumulated over a period of time.

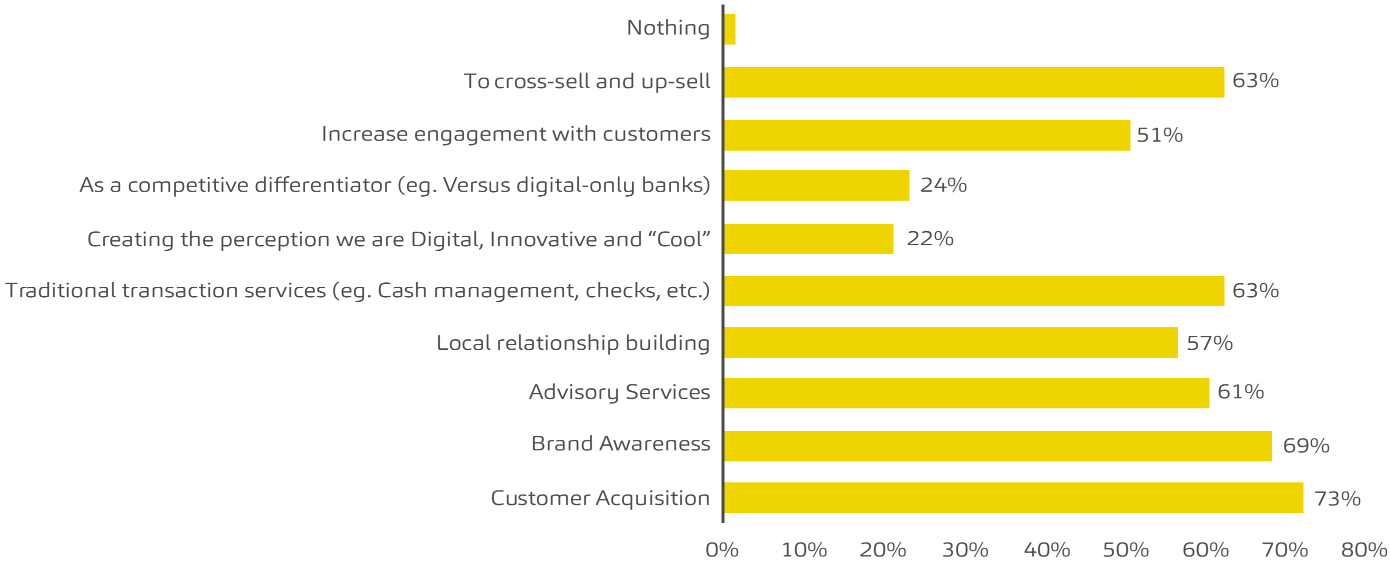
"Bank branches add value to my customers"?



What kind of value does the branch add?

It's clear that the bank branch model can and is adding value to customer servicing and experience, but to understand where and how, Efma and Synechron assessed the various functional strategies assigned to the branch. Results indicate that banks find branches provide the most value related to customer acquisition, brand awareness, traditional services like cash management, and as a means to cross-sell and up-sell. Of these, the number-one strategy and perceived usefulness for the branch is customer acquisition, with 73% responding that they use their branch to acquire new customers despite having the ability to do end to end onboarding through online services. After that, brand awareness (69%), traditional transaction services (eg. Cash management, checks, etc.) (63%), to cross-sell and up-sell (63%) and advisory services (61%) top the list. This is followed closely by the need for local relationship building (57%) and to increase engagement with customers (51%). After that, responses were varied with only 22% stating they use the branch to drive market perception that they are digital, innovative, and 'cool' or 24% as a competitive differentiator (eg. versus digital only banks). Results suggest that the 'usefulness' of the branch cuts across business, marketing, product, and customer goals to help address some of the most important strategies and revenue areas for the bank.

I currently use my branch for the following



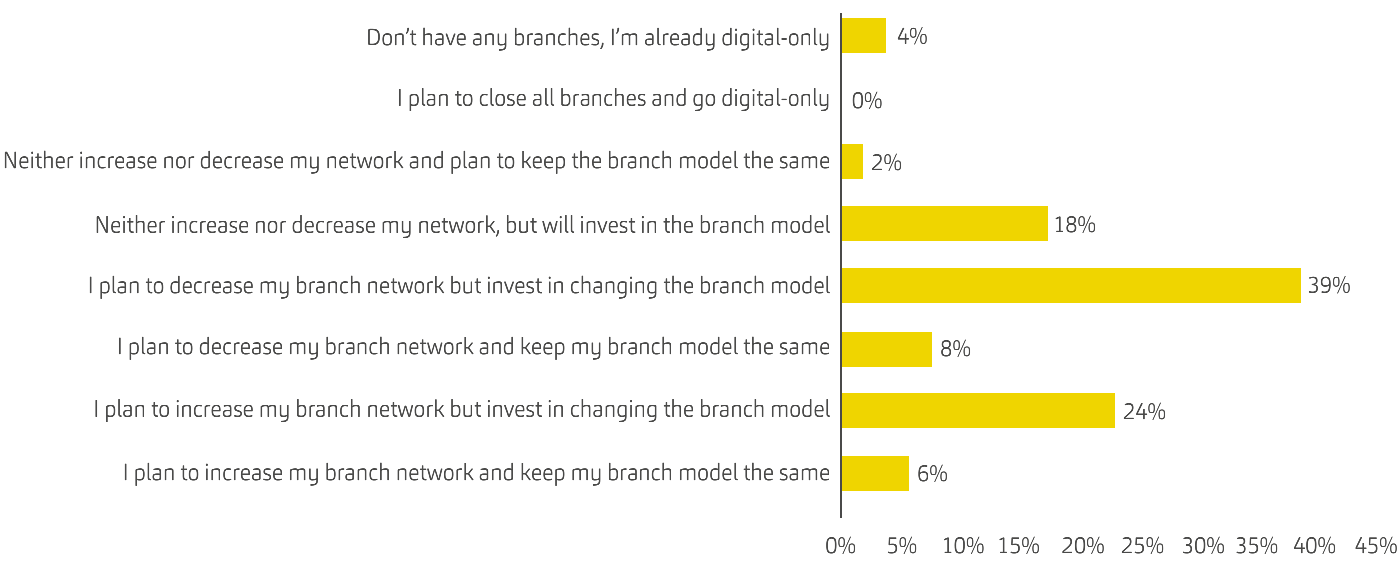
From Branch to Digital

How does the approach to the branch need to change to drive more value?

Our survey results indicate that there will be a strong balance between branch closures and consolidation with an increase in spending around digital strategies. In some cases, this could even lead to an expansion of the branch model.

When asked, "what are your plans for your physical distribution/branch model," the number one answer was the **39% who responded said that they planned to decrease their branch network but invest in changing the branch model.** After that, 24% stated they plan to increase their branch network AND invest in changing the branch model. This equates to 63% who plan to change their branch model but are split on whether this includes increasing or decreasing the number of branches. Furthermore, 18% will neither increase nor decrease their network, but also intend to invest in branch transformation. 8% said they plan to decrease their branch network and keep their branch model the same. Similarly, 6% said they plan to increase their branch network and keep their branch model the same. Only 4% responded they don't have any branches because they are already digital-only, and only 2% said they would neither increase nor decrease their network and plan to keep the branch model the same.

Branch Distribution Plans



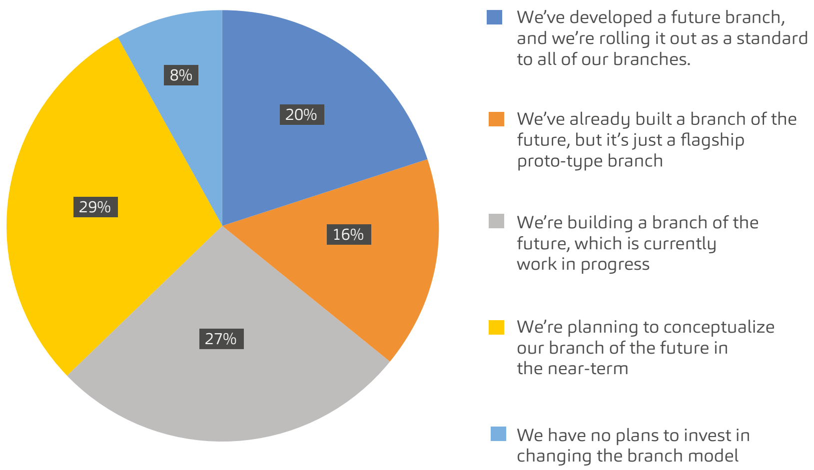
Where are you on the digital branch transformation spectrum?

With so many banks stating that digital transformation is a key part of their branch / digital strategy, a good first step for them will be to benchmark where they are on the digital branch transformation spectrum. This has important implications for determining budget, timelines, priorities, and other key strategic decisions based on where they are and where they want to be.

When asked this question, 63% of respondents stated that they already have developed a 'future branch', a prototype, or are in the process of building or conceptualizing one. This includes:

- 27% who said "We're building a branch of the future, which is currently work in progress."
- 16% who said "We've already built a branch of the future, but it's just a flagship proto-type branch."
- 20% who said "We've developed a future branch, and we're rolling it out as a standard to all of our branches."
- Encouragingly still, 29% said "We're planning to conceptualize our branch of the future in the near-term," while only 8% have no plans to do so.

Where are you on the digital branch transformation spectrum



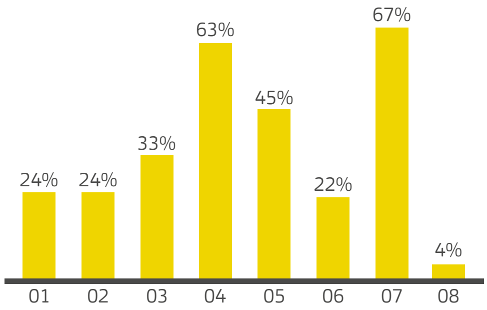
How can bank branches find differentiated value versus digital-only banks as they work through their digital strategies?

While respondents generally indicated that they didn't see the value of their existing branch model as a competitive differentiator, that's not to say that it couldn't become one as part of the right digital transformation program. When developing a digital strategy for the branch, banks need to think about how the branch functions as one of many channels with a consistent experience that is portable across all digital touch points. A journey started on one channel should be able to be fulfilled midway through an alternative channel. Pan-bank, omni-channel strategies increasingly begin with a reengineering initiative of the branch processes.

In the survey, branches were scored better than digital-only channels for providing specialist advisory services (67%), the most convenient for developing relationships (63%) and the most appropriate for supporting small to medium cash businesses (45%).

Interestingly, 33% of bankers surveyed claimed branches are the most effective channel for doing KYC and regulatory compliance requirements and 24% said that branches are the most convenient way to open accounts and provide instant issuance (e.g. Credit/Debit cards, checkbooks). Furthermore, 22% said branches are most effective for resolving complaints or inquiries.

Banks vs. Digital-only Advantages



01 Branches are the most convenient way to open accounts
02 Branches are best for instant disbursement (eg. Credit card, checkbook)
03 Branches are the most effective channel for doing KYC and regulatory compliance requirements
04 Branches are the most convenient for developing relationships
05 Branches are most appropriate for supporting small to medium cash businesses
06 Branches are best for resolving complaints or inquiries
07 Branches are best for providing specialist advisory services
08 None of the above

From Branch to Digital

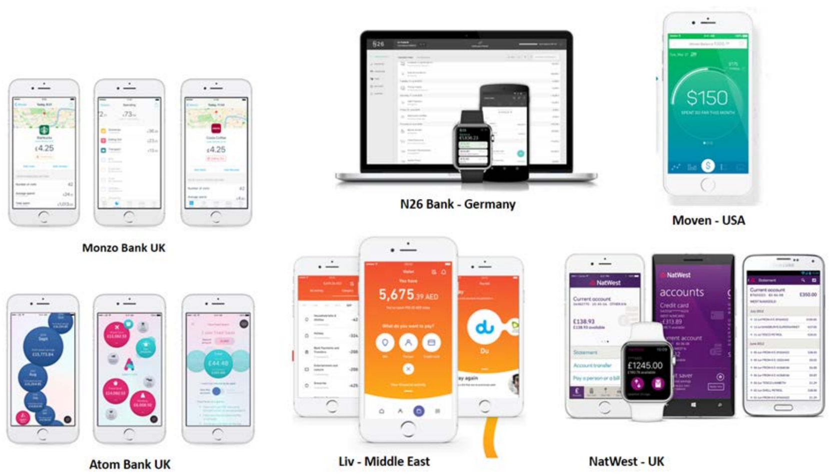
Challenger Banks in the Digital Age

Based on this data, who's doing it well, and what can we learn from them?

Market Overview

As digital-only challenger banks have come in and taken market share from traditional banks, this phenomenon has fueled the question – what is the future for the bank branch?

It has been nearly three decades since First Direct launched a 24/7/365, branchless, telephone (and later web-based bank) to compete with the branch model, and since then a number of challenger banks including Atom Bank, N26, Monzo Bank, Moven, Liv, and more have emerged.



This has pushed all major banks to offer some form of web and mobile service for their customers, but as these banks have increased their digital presence to compete, they haven't all thought about how these strategies can actually be integrated to enhance their existing branch model, especially when challenger banks are launching applications from the ground-up and don't need to accommodate legacy technology and processes that predate the existence of mobile phones and keep incumbent banks slow in transformation.

A 2017 report from BankNXT cited that a whopping 74.1% of those that signed on with a challenger bank did so simply because "I wanted to try it out," as opposed to other factors like frequent traveling (11.1%), easy registration (3.7%), or better rates (3.7%). Challenger banks have piqued curiosity, but traditional banking is still the trusted solution for most consumers, giving banks with physical branch distribution networks additional channels with which to build relationships and 'experiences'. Interestingly, pioneering mobile-first banks like ING Direct are now looking back into building a branch presence, and even digital-only businesses like Amazon are frequently cited for having physical branch/store plans to complement their largely internet based businesses.

By examining a few of the leading challenger banks, and what works on these digital-only platforms, there are a few key lessons banks can take with them in their digital branch transformation initiatives.

Atom Bank

In 2015, Atom Bank launched a new business model that built a bank from the ground up, taking a Design Thinking, Mobile-First approach in which the design teams, bankers, and developers were all aligned toward optimizing and ensuring a single efficient, intuitive, and compliant mobile application.

Nick Wiles, Atom Bank's Head of UX has explained that the bank's initial creation and ongoing development has been based on iterative Design Thinking. This approach calls for a cyclical feedback loop consisting of customer research, prototyping, technical development and deployment, user testing, and iterative ongoing development based on user, compliance, legal and branding feedback. Only then would developers integrate changes into the Atom Bank app. This customer-lead, mobile-first approach is in stark contrast to the systems-lead approach many other firms have taken.

By building the bank from the ground up, Atom Bank was able implement cutting-edge technology right into the foundation of the bank's architecture and use those technologies to drive their business processes.

Lessons to be Learned

From the get-go, Atom Bank determined what people wanted and trusted the feedback to guide everything from design, product offerings, and features. The bank itself isn't flashy nor does it offer anything revolutionary; they won their customers by offering what their target demographic asked for: convenience, simplicity, security, customizability and customer service. The digital-only branch proved to be a highly effective model, with others like N26 Bank in Germany, and Monzo Bank launching similar challenger models.

- **N26** saw an opportunity to cut onboarding down to a sales-pitch-free eight minutes with an additional two days for a bank card to be mailed, creating a digital-onboarding model that branches could take a lesson from and think about implementing in-branch.
- **Monzo** has amassed over 140,000 active customers in two years, largely by word of mouth built from its desire to give customers what they want - a customer-centric open banking movement with open APIs. This digital-only model has proven highly effective for them; however, bank branches looking to take a lesson from this digital-only challenger might think about how an open API strategy can be employed within the branch to innovate rapidly and enhance digital offerings such as app-based appointment making, in-branch promotional alerts, wait-time updates, personalized product updates to encourage in-branch meetings, beacons, branch and customer analytics, and more. Branches can even think about using this important physical real-estate to host events and hack-a-thons to support digital innovation.

Handelsbanken

One bank that continues to challenge the challengers is Handelsbank - a Swedish bank known for providing universal banking services across traditional corporate transactions, investment banking, trading, consumer banking, life insurance, and more. The bank's motto - "The Bank is the Branch"- takes exactly the opposite approach, putting the branch at the center of the business model. Handelsbanken also has digital channels, which customers can use to perform all the basic digital functions, but its community bank branch focused approach with a branch manager that serves as the final decision-maker of whether you get a loan or not, gives the branch a central role in the value chain.

You can still log into your mobile banking and do everything through digital channels, but when it comes to loans and big-ticket items, the branch is where customers are directed for this type of activity. This is why Handelsbanken is investing in digital, in-branch transformation to augment and enhance the relationship and why the bank has been a repeat winner of the fastest growing bank in the UK award and the best customer service bank in the UK.

Lessons to be Learned

Digital channels are important, but so is the physical branch in building relationships and getting the customer service level right. The branch model works incredibly well for a customer-centric approach and for servicing more complex transactions such as loans that require greater levels of trust-building or community-building.

[5] *Hornsby, Peter. "An Interview with Nick Wiles, Head of User Experience at Atom Bank." UXmatters. UXmatters, 11 July 2016. Web. 28 June 2017.*

Branch Trends and Investment considerations

It is well known that for many retail banks, the branch operating costs represent a significant proportion of the annual budget. In recent years, branch networks have seen considerable downsizing, and in terms of actual real estate have also seen a trend toward making the branch smaller. New operating models in which banks co-brand the branch with non-banking partners is on the rise, and there is a push to simplify, relax, and create a branch that can actually be a consumer destination of choice. Does this lower the cost of running a branch, and to what extent can this introduce impulsive banking from a non-intrusive financial organization? In this part of the survey, we looked to get an idea of why banks will continue to invest in branches and what stage they are at in their digital branch transformation journey. Are we still in a phase of experimentation and flagship branch prototype, or is the change in the physical branch foundational and systemic of how branches will be for years to come?

Branch Investments

Innovation is Key: Approaching Digital Transformation Within the Bank Branch

In 2016, 62% of Americans cited digital as their primary source of banking, up significantly from 51% in 2015. With high overhead costs, declining foot traffic, and increasingly digital demands from consumers, banks and financial institutions are looking to future-proof their businesses and remain relevant while keeping costs down and customer acquisition and retention up. While operational costs for bank branches are still high and need to be addressed, many banks recognize that there are many reasons why the brick-and-mortar bank branch is still essential to the banking experience. For example, Synechron and Efma's global survey found that the Retail or Consumer Banking Group are still prioritizing digital transformation as a means to improve customer service as well as overall customer experience. (See page 24-25)

While some branches will close their doors, banks focused on digital innovation are actually investing in the branch as an important digital channel. When doing so, they will need to think about how they use physical space and digital components together to create compelling user experiences and in some cases make the branch a destination of choice. The top three priorities for digital branch transformation spend include improving customer service and engagement (42%), evolving the role of bank staff (40%), and considering digital and interactive experiences within the bank branch (38%). Given these priorities, banks may have different approaches, but the key is in keeping customers engaged and to providing them with a truly digital, personalized, and contextual experience when visiting their branch. Similarly, the human element is of prime importance in the branch, and still provide the basis for which trust and stability are key factors in the consumer choice of a primary bank.

Branch Investments

These lessons from experiential retail are important to consider:

1. When to embrace the physical model, and why

As millennials come of age and become a target consumer demographic with expectations of instant gratification, companies across industries (including banking) are looking for ways to provide equally compelling digital, physical, and integrated digital/physical experiences. On one hand, companies like Amazon have historically had a digital-first model, but are now setting the groundwork to expand their physical footprint with their acquisition of Whole Foods, and exploring cutting-edge distribution concepts like drone deliveries and v-commerce. Other companies have embraced more of an "experiential retail" model approach to give consumers a reason to come to the brick-and-mortar storefront over online experiences.

2. How to integrate digital and physical customer experiences

When considering how best to create the ideal customer experience within the branch, banks must decide what type of experience will resonate best with their customers and which route will help them achieve their overall business goals. This can come down to high aesthetics and inventive and high-tech experiences for some banks that want to create a leading-edge tech brand persona. However, for community banks, they might opt for a more comfortable, community-based experience that brings in local partners. We are seeing this across retail centers already. For example, Apple Stores provide a high-tech and high-touch experience in a futuristic and digital environment that can be very self-service, while providing "geniuses" to assist with any of the technologies across the store. One might argue that this is due to the beauty of their products, but for banks it is the importance of key financial decisions that act as this substitute. Similarly, stores like REI and Bass Pro Shops provide interactive displays for customers to experience products, and the lifestyle they promote as well, even including skills classes. Nike's flagship store offers digital screens and interactive displays and even a digital basketball court. Pioneering banks have seen the success of these transformations and maintain the value of their branch footprints and are therefore thinking through how they can create similar high-tech, self-service experiences that align with their own product, value proposition and range of services. Self-service kiosks are replacing traditional ATMs that go beyond withdrawals, deposit and account balances, and bank staff are using tablets to teach, assist and support customers.

Creating an engaging experience when converging the traditional physical branch blended with digital mediums is a large undertaking, and banks most importantly ensure that the experience of digital engagement in a physical space is both purposeful and relevant to the customer they aim to serve with said content. There are no shortcuts in developing compelling digital experiences in-branch, and this requires a true depth of knowledge on the target customer, challenging assumptions and perceived trends with a tsunami of data, and an ever-evolving customer demand. With this type of integration, banks are well positioned to transform how they engage and interact with each customer using their legacy physical spaces in new ways, and in some cases with radically different operating models.

3. Where to employ the latest innovations

"Coffee branches" have also gained popularity, fusing together your popular coffee shop with a physical bank, going for a less high-tech feel and a more welcoming, community-based environment. Again, this model has been highly successful both in the UK, U.S. and Middle -East with banks like Abbey National and Alawwal which have shown an impressive increase in sales and NPS after launching their café banking branches. In the U.S. market, one of the more successful implementations to date of the coffee branch model has been by Capital One which has drawn on ING's legacy to open coffee branches across cities like Chicago, Boston, and Los Angeles. Their objective has been to promote their brand as an online bank while fostering the possibility of casual meetings and relationship-building with customers. The Capital One 360 Cafés have also proven to be a draw for small businesses who have access to conferencing and meeting room facilities. Like a Starbucks or local cafe, anyone can come inside and buy a cup of coffee or coffeehouse treats, enjoy free wi-fi, charge up their electronics, and more. As an incentive, only bank customers can receive discounts on the coffee and baked goods, creating a sense of brand loyalty and a VIP experience for customers. Instead of bank tellers, the branch is staffed with baristas and employees called "coaches" or "ambassadors" that leverage tablets to demonstrate digital and online banking, without the visitor being pressured into sales or services. Impulsive banking is made available through a non-intrusive environment, and facilitated through to instant fulfillment using well designed digital experiences.

For all that differs between high-tech aesthetics and coffee-branch models, one constant is the creation of a true customer journey and the memorable, positive experience that results. Never before has design thinking become such a valuable approach to customer acquisition in a physical space. Before online and mobile banking became the norm, few people enjoyed going to their bank branch to wait in long lines, deal with tellers and sales staff with cross-sell and up-sell incentive targets. In contrast, banks today are recognizing that the creation of value added digital experiences can reinforce trust and loyalty, and change the engagement from transactional to advisory.

Is Experiential Retail Right for The Bank Branch?

As banks consider a reimagining of the bank branch, they must first decide what their end goal ultimately is: is it to generate increased foot traffic, expand upon and improve the overall customer journey, use the traditional brick-and-mortar model to help migrate legacy clients over to digital and drive adoption of these channels, increase brand identity and awareness, sell personalized products and services, or all of the above.

Synechron and Efma's survey found that when it came to branch transformation, 40% of firms want the branch to communicate: "We are a traditional, trusted and secure financial institution." While Fintech advocates will continue to push that traditional means outdated, the reality is that most customers still see comfort and stability, associated with incumbency and traditional values. Customers may complain about the service of their bank, but little consider it important enough to take their business elsewhere.

Whether the branch design emanates coffee-banking, a hotel lobby, or Apple-like tech environment, it is clear that physical distribution models too are encompassing a digital mindset, and offering new ways to educate, advise and personalize experiences for today's always connected customer.

---

[6] *Bank of America, Trends in Consumer Mobility Report 2016: 5.*

Branch Investments

Key Areas of Investment

Banks are rethinking branches, and a critical first step for that analysis is to understand the existing and future costs associated with the branch network.

Touching on key areas of investment, the survey looked at how much of a retail bank's total cost is attributed to the branch network, anticipated budgets over the next 12 months, who is driving sponsorship of branch transformation in the business, and what to consider during the process.

The research showed, branches do still have high overhead costs which need to be addressed, but Retail or Consumer Bankers are predominantly focused at how investments in digital transformation can be used to improve customer service/ engagement and evolve the role of branch staff, ahead of reducing their operating costs.

How big of an expense is the bank branch really?

When asked this question 30% said that between one half and three quarters of their costs are associated with the branch network. 20% said somewhere from a quarter to half of expenses are associated with the branch. Finally, 12% said that 15-24% of total cost is attributed to the branch network. It's therefore no wonder that the branch is being looked at as a key channel that can deliver significant cost-cutting.

That being the case, alarmingly, 8% responded that 71-90% of their cost is associated with the branch, whereas, 18% did not know.

How much of your total cost is attributed to your branch network?"

91-100%	0%
71-90%	8%
51-70%	30%
25-50%	26%
15-24%	12%
6-14%	6%
0-5%	0%
I don't know	18%

A good first step for banks looking to invest in digital transformation is to conduct a cost review of their current expenses to understand how their cost-model compares with peers. This will allow them to set goals such as whether they will need to reduce their overall branch expenses to impact the overall operating budget, or if funds instead can be reallocated from existing branch operating expenses to support digital innovation initiatives.

What kind of investment do banks plan to make?

As might be expected given some banks plan to close branches while others plan to open them, the level of investment they plan to make is not consistent across the board. Branch transformation budgets are split, but the greatest number of respondents (22%) said that they expect to invest 15-24 of their budgets into branch transformation. Arguably this means that digital branch transformation is likely one of the top five priorities for the retail bank. After this, the next most popular response was that 18% expected to invest between 6-14% in branch transformation.

Interestingly, 18% did not know, indicating that the aforementioned cost analysis may not yet have happened and that there could still be an opportunity to help guide the investment process. On the other hand, 12% responded that they plan to spend as much as 51-70% on branch transformation, and 2% even said they would spend as much as 71-90%.

Who "owns" the branch?

Whether it is reviewing operating expenses, setting the digital strategy, or making decisions about the future branch operating model, a successful branch transformation will need a champion within the business. 24% have raised it up to the Board/CEO which will make the need to find a sponsor in order to achieve progress much easier.

As would be expected, 58% of banks have tasked their Retail / Consumer Banking Head with Branch Transformation focusing instead on the business channel that likely receives the most value from the branch. Only 6% have placed this within their independent Digital team and only 6% within Marketing. Surprisingly only 2% said branch transformation would be handled by their innovation group.

Where to invest?

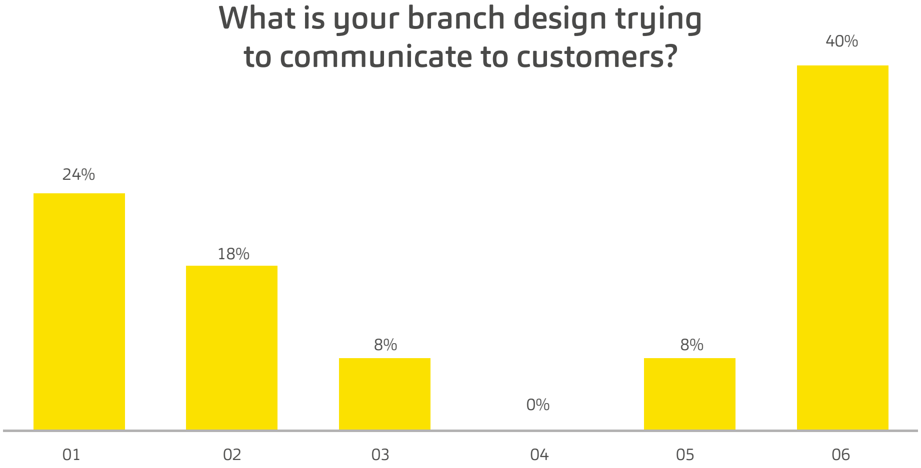
After benchmarking the cost of branch expenses, determining an appropriate budget for branch transformation, and getting the organizational buy-in to proceed with the initiative, banks will need to determine where to focus that investment. The top focus area for branch transformation is to improve customer service/engagement (42% identified as a priority) and evolve the role of branch staff (40%). This, however, is followed closely by considering the digital, interactive experiences (38%) and the self-service automated technologies (36%). Lowering the operating cost of the branch was also a popular response with 34% of those surveyed affirming this would be one of their most important considerations.

Why invest in the branch?

A solid digital strategy will assess any digital changes to the business that will have an impact on the existing operating model, and branch transformation will undoubtedly meet that requirement. Therefore, as banks invest in their branches, their digital strategy will need to set out a clear objective for what they are looking to achieve. This could include many different messages to customers.

Overwhelmingly, 40% of firms want their branch to communicate, "We are a traditional, trusted and secure financial institution." The next most popular answers after that were that "we provide community and collaboration" (26%), we are futuristic and digital-first (18%), and we offer convenience and impulsive banking (8%).

What is your branch design trying to communicate to customers?



01 We provide community and collaboration
02 We are futuristic and digital-first
03 We offer convenience and impulsive banking
04 We deliver a cool place to hang out
05 We're a millennial-friendly bank
06 We are a traditional, trusted and secure financial institution

On the other hand, no one responded that they felt the branch design should try to communicate that they deliver a cool place to hang out, which suggests that motivation is serious about improving customer service and not simply trying to 'act millennial' and drive PR attention for brand building and market perception.

Branch Investments

The Evolution of the Café Branch

With investment in new branch models a clear priority based on this data, one branch experience worth examining more closely is the café branch. It has been almost 20 years since ING Bank and Umpqua Bank first unveiled the café bank branch - a concept that has been replicated by banks across the globe. The strategies behind experimenting with café branches have been extremely varied. Some banks introduced café bank branches as a casual, more community-centric alternative to the stressful, long-line branch experience. Many have used them to focus on aesthetics and help support or reposition their brand identity. Others have embraced the cafe branch as a way to combat a rapid decrease in branch foot traffic and to entice walk-ins for value-added experiences. While the business drivers may vary, successful café branches surpass gimmicks and serve as a gateway to achieve the bank's greater goals.

Umpqua Bank -
Proving the Concept of the Café branch

The Problem

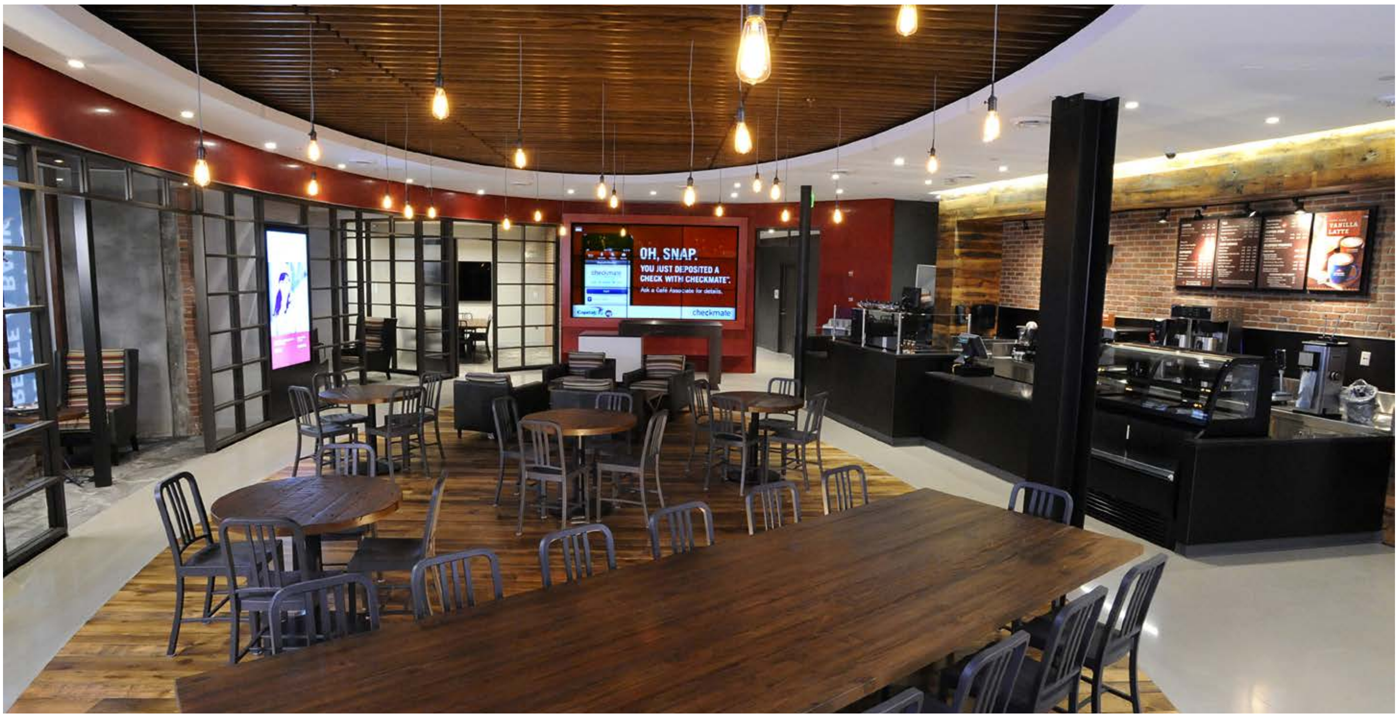
In the mid-90s, Umpqua Bank was struggling as a small, community bank in an industry that was evolving faster than they could. Rather than try to compete with the major banks, Umpqua decided to fully embrace their identity and become a community cornerstone.

The Solution

Umpqua set out to create a non-threatening, warm, and welcoming banking environment where visitors and customers would feel comfortable and wouldn't feel like they were being pressured into making a commitment or being sold to. They called their branches "stores" and had a variety of offerings such as locally-sourced café fare, a library, book clubs, volunteer networks, and even offered yoga classes and children's movie nights. Their community-focused offerings and welcoming branch has given their customers a business they can embrace as key part of their home town.

The Results

By having each individual branch ingrain itself as part of its local community and embracing their Pacific-Northwest origins, Umpqua expanded from 6 locations in '94 to over 350 branches today. As of 2015, they had $18 billion in deposits, $24 billion in assets and have expanded into five states .



Capital One 360 Café –
Embracing the Digital Transition

The Problem

As a direct bank, Capital One 360 needed a way to bring in new customers while also creating the personal, emotional attachment that digital banks can struggle to foster. While the transition to digital banking has been easy for some demographics, there are still many hesitant to shift away from the brick -and-mortar business model with which they are comfortable.

The Solution

In 2001, Capital One 360 opened up the first of their Capital One 360 Cafes in midtown Manhattan. A two-story café that offers free wi-fi and a 50% discount for Capital One account holders, their atmosphere is entirely café-first, featuring plenty of open space, and local baked goods. However, the baristas on staff are experienced bankers and are available to offer digital banking assistance and provide financial investment advice for Capital One products, all while putting on free, in-store seminars ranging from money management to how to use the latest technologies in digital banking. Rather than make the café branch a profit center, they've chosen to treat these cafés as inviting experiential advertisements, education centers, and as a reward for their local customers – an expense made possible by the low-overhead direct banking model.

The Results

While it's difficult to calculate a direct return on the investment, Capital One 360 has continued to expand its café initiative across urban centers in the U.S. – suggesting that it has succeeded in improving brand engagement. Since 2010, Capital One 360 has become the third fastest growing direct bank and has increased deposits by over $24 billion.

While these banks were some of the leading innovators of the Café bank branch, increased overhead and inability to drive revenue could be a challenge in some cases. There has been a movement by some of the leading global banking innovators to build on this model and take it to the next level by showcasing their digital-first capabilities.

Saudi Hollandi Bank/Alawwal Bank - A Fully Digital Café Branch

The Problem

In 2016, Saudi Hollandi Bank rolled out a corporate rebranding initiative for the modern banking era, changing their name to Alawwal Bank (Arabic for "The First") to represent their history as the first bank in Saudi Arabia. With the new name, the bank sought a new image representative of their innovative vision and customer-first attitude. To serve as a symbol of their new identity, Alawwal sought to design a branch of the future.

Like most banks, Alawwal Bank was facing the reality that the traditional distribution model wasn't aging well. Branch operational costs had become prohibitively high with less foot traffic to show for it. Furthermore, the services provided within lacked the efficiency and convenience consumers have come to expect in the digital age. Their new branch needed the technology to streamline their operations, provide maximum convenience on-demand for their customers, and provide a lasting aesthetic that would define Alawwal Bank as the premiere bank in the region and entice potential customers to walk through their door. Most importantly however, it needed to embrace the digital era of banking.

The Solution

Alawwal Bank responded with their inaugural IBDA branch – an aesthetically driven, open-air, digital café in the heart of a popular mall. Partnering with Costa Coffee, Alawwal designed a sleek, open bank complete with palm trees to entice impulse mall-goers to walk in and encouraged them to stay with the relaxing environment. But, the branch couldn't just be a comfortable place to sit without offering enhanced services. Therefore, each table-top was paired with a touch screen device to encourage visitors to explore the Alawwal digital portal, which engages customers in everything ranging from casual games and branch information, to product research and digital branch functionality.

Alawwal recognized that while the atmosphere created from the aesthetic design, touch screens and café may raise the bank's profile and draw more foot-traffic, the real benefit would come from using next-generation technology and embrace cutting-edge digital banking to increase self-service, new customer onboarding, and cross-sell opportunities. This was achieved with virtual teller kiosks to allow customers to video-chat with a live Alawwal employee and work through questions, concerns and banking needs. Additionally, touch-screens throughout the branch are set up with content to entertain and educate customers on new products and services to help drive new business opportunities. Perhaps most uniquely, Alawwal also developed a comprehensive digital onboarding capability, allowing customers in the Digital Café to apply for a debit or credit cards in seven minutes, on demand, on their own, and completely digitally. The service draws on AI techniques such as Robotic Process Automation (RPA), Optical Character Recognition (OCR), and Natural Language Processing (NLP), which streamlines customer onboarding tremendously. The AI backbone of the onboarding process enables data extraction from ID scans, auto-population of necessary application fields, automated data sanitization and verification, and automated KYC information extraction.

The Results

In its first six months since opening, Alawwal's IBDA branch has been a tremendous success for the newly rebranded company and gained attention globally for its disruptive approach to successful innovation. The branch reinforced the desired image that Alawwal is a technology forward, customer-first bank that embraces the digital age. Beyond the improved brand equity that IBDA cultivated, the branch itself has provided an impressive return-on-investment. Some of the many positive results seen include:

- **Improved Service and Availability –** Digital functionality has allowed the branch to offer full functionality at a customer friendly, seven days a week until 11pm.
- **Better Customer Experience –** 7-minute onboarding, no lines and quick transactions in a café environment has cultivated an efficient and stress-free banking experience.
- **Greater Customer Engagement –** Rather than off-putting sales pitches that can drive customers away, tablet content organically guides customers toward profitable actions such as opening accounts and credit cards, and engaging customers with financial product offerings.
- **Increased Foot-traffic –** The IBDA branch sees a higher percentage of foot traffic than non-IBDA Alawwal branches.
- **More Business for Less Expense –** Embracing AI, virtual tellers and digital onboarding has reduced operational costs while improving the customer experience.

---

[7] *Securities and Exchange Commission Form 10-k. Commission File number 001-34624.*

[8] *Lustrino, Chris. "Capital One 360 Café: Caffeinating Direct Banking Growth -." Simple. Innovative. Change. Simple. Innovative. Change., 17 May 2016. Web. 10 July 2017.*

Technology in the Branch

The convergence of physical and digital channels has led to the term 'Physical' being increasingly used in the industry. If technology is to improve and enhance the branch experience, then what technologies are considered most effective? The evolution of the simple cash dispensing ATM into a full-fledged, interactive, self-service channel with comprehensive onboarding capabilities is but one technology in which banks see value. Instant printing of plastic and check books continues to hold appeal, but is there an increased trend in digitizing the inside of the branch to offer new advice, tools and access to data that can assist customers and bankers in making important financial decisions? As voice-enabled touch screens and interactive content capable of engaging customers becomes more and more mainstream, is technology like video-chat, enabling banks to offer service levels previously unavailable through more cost effective models? Which technology improves engagement with customers and drives conversations, and ultimately which technology investments will drive more bang for the buck?

Emerging Technology in the Banking Branch

Catering to Digital-First Consumers in a Physical Branch

Despite the continued digital overhaul of the financial services industry, institutions are not replacing their brick-and-mortar distribution. While mass consumer customers are now accustomed to digital technologies being at the touch of their fingertips, they still recognize value in being able to visit a physical location for their banking needs. One could argue that while customers may want branches, they may not actually need branches, but perception is proving to be a big cultural factor to shift – even in millennials. What is not debatable however, is that the branch role and its staff must evolve to service modern day needs. The future of the brick-and-mortar bank branch will be a hybrid of face-to-face advisory services and digital self-service. Banks are recognizing this market need which is shaping their approach to how they think about incorporating technology into the future branch operating model.

On the topic of technology priorities for the bank branch, the Efma-Synechron global survey found that a majority (62%) of respondents would focus on self-service, staff support, and to appear cutting edge using cash-in/cash-out, CRM-enabled tablets and leverage touch screen walls, interactive tables and tablets. (See pages 34-37)

Emerging Technology in the Banking Branch

The Technology Inside of the Branch

As banks commit to investing in new technologies to support their branch of the future, they'll need to assess what technologies to integrate, what new customer journeys look like, and how those experiences can provide the most value in support of their customer acquisition, cross-sell, brand, and other strategies.

Mobile and Touch-enabled Devices

Perhaps the most natural place to start is touch-enabled devices. Across nearly every industry, today's consumers are used to on-demand services and experiences powered by various mobile devices. This makes self-service a huge selling point for banks, as it integrates technology and digital services in a way that consumers feel comfortable – while also bringing context and value to the customer experience. Whereas the customer may be averse to an education-based conversation with branch staff, they may welcome the opportunity to educate themselves through smart devices which make interaction fluid and easy to digest. Video-based content is increasingly becoming the content of choice for consumers and is known to improve engagement within the branch, particularly when interactive.

Educational experiences via digital endpoints are exactly the type of technology-enabled experience customers seem ready for within the branch. To that end, according to Bank of America's Trends in Consumer Mobility Report 2016, Americans are more likely to turn to their mobile devices for everyday activities than consult a human, with 66% of people get directions solely from a mobile device, 51% booking travel online only without ever speaking to a travel agent, and nearly half of people (46%) even scheduling all of their appointments online. Their banking habits aren't any different. Bank of America's report also found that 54% of consumers say they use a mobile banking app regularly, up from 48% in 2015. Millennials were found to be significantly more likely to use a banking app (75%). So, while simple tasks such as mobile check deposits, money transfers, and checking balances can be done online by the customer themselves, customers also see convenience with in-branch self-service and value added digital experiences that can assist in the decision-making process. Incumbent banks recognize this trend, with the top areas for future investment in digital branch transformation being; self-service, video chat, gamification, and other emerging technologies.

ATMs and ITMs

Given 83% of respondents cited cash-in, cash-out and check deposits as the most effective self-service function in the bank branch, another key strategic technology focus has been on smarter ATMs which can do much more than traditional check and cash deposit/withdrawal. Smart ATMs (often called ITMs or VTMs) can now support customer onboarding complete with document scanning and biometric enrollment, as well as video chat capabilities to extend the self-service function to include advisory and educational opportunities.

To that end, Synechron and Efma's survey found that the most popular case for video chat within the branch is specialist advisory services. However, ITMs are not the only way to deliver this experience to customers. Bank branches can think about incorporating video chat via tablet or interactive display wall as a direct customer experience or even having video chat support agents within the branch to empower them to provide more services. To that end, the survey uncovered that many banks actually are exploring how they can use tablets with real-time Customer Relationship Management (CRM) and digital experiences to assist sales and the overall bank staff.

Focusing on Experience

While the branch is an integral component of a bank's omni-channel strategy (except for digital-only banks), banks are also using technology in the branch to create a more memorable, visceral experience for customers than they can through a digital-only experience. The "physical" banking experience in the branches of the future uses technology as a means to build that experience.

This means thinking about not just the technology (tablet, ATM, video, etc.) that is used to enable the experience but also how, when, and why it is delivered. For example, long queues can be a point of frustration for bank patrons waiting to use an ATM, to see a teller, or to speak with an agent. In such cases, Synechron and Efma's survey established that the top two uses for gamification within the branch were edu-tainment about products and services (38%) and entertainment while waiting for assistance (27%). The digital strategy could, therefore, include an interactive display wall game for customers to engage during waiting times or a self-service pre-requisite, basic information form to be filled out while waiting to speak to a professional to bypass the need to relay basic information at the start of the interaction and better utilize time.

Another challenge facing the branch is how to educate branch staff to transition from tellers to multi-skilled bankers capable of performing traditional transactions, but also able to sell complex products and onboard customers in compliance with KYC requirements. Supplementing the bank staff with video chat, video screens, and interactive screens, can also help the bank branch shift from transactional to niche advisory services, while at the same time minimizing operational overhead. The branch could provide insight on anything from investment and retirement planning, first-time mortgage planning, insight into individual spending behavior, and simplification of banking products and services.

The digital branch will leverage technology to engage with customers in more meaningful ways, enable relationship built banking, and drive the value in the physical distribution network, which has been under threat for years. Banks will do well to consider what they want to achieve from investing in their branches, and build unique digital experiences and develop a comfortable ambience that reinforces trust in the brand and makes the branch a destination of choice.

---

[9] *Bank of America, Trends in Consumer Mobility Report 2016: 4.*
[10] *Bank of America: Trends in Consumer Mobility Report 2016: 5.*

Emerging Technology in the Banking Branch

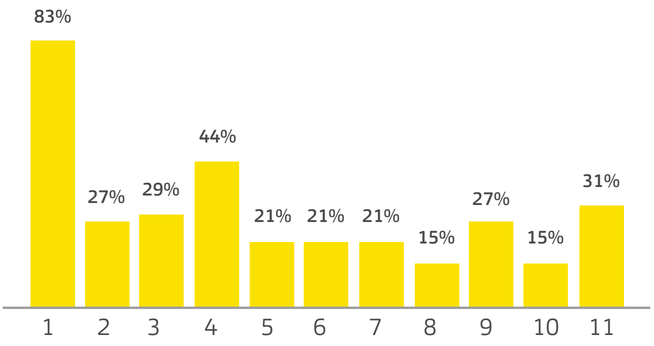
The Technology Inside the Branch

With the strategic investment priorities for the bank branch defined, banks can then move on from strategy to implementation. One of the key functional areas they'll need to drill down into is how they incorporate technology into the branch to enable self-service, educational, trust-based, and impactful experiences. This is no small task for any branch strategy, and is systemic in the motives for banks looking to technology to catalyze their digital transformation.

Where is self-service technology most effective?

Given self-service was stated as a top priority for the bank branch strategy, the Efma-Synechron survey went on to explore where self-service could be best enhanced by technology. On this topic, the survey found cash-in, cash-out and check deposits was overwhelmingly the most popular use of technology with 83% of respondents selecting it as the technology "most effective" in the branch today. After that, 44% highlighted self-service technology related to education about digital channel adoption (mobile and internet banking) as most effective. 31% selected cardless cash as the most effective use, while 29% said product and services awareness and 27% customer onboarding.

Most Popular Self-service Technologies

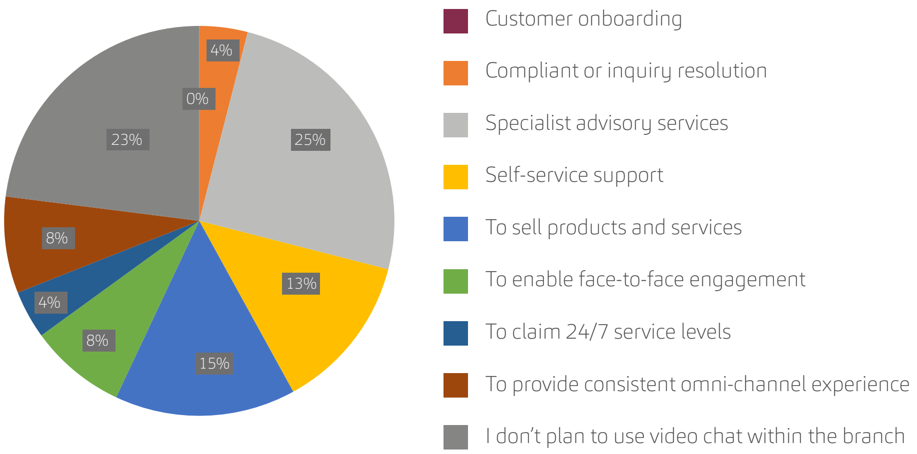


1 Cash-in, Cash-out and check deposits
2 Customer onboarding
3 Product and services awareness
4 Education about digital channel functionality
5 Video chat advice
6 Customer complaints and inquiries
7 Credit/debit card replacement and new checkbooks for existing customers
8 Foreign exchange (FX) currency services
9 KYC and compliance documents
10 Biometric enrollment
11 Cardless cash

When should the branch use video chat?

With a strategic focus on using the branch as an education channel, the most popular use case for video chat within the branch is specialist advisory services with 25% of respondents selecting it as the best use for video conferencing. Interestingly, the second most popular survey result was that some banks have no plans to use video chat in their branches (23%). After that, 15% suggested video chat could be used to help sell products and services (in a way similar to selling specialist advisory services). These mixed results show that while bankers think video can support their advisory business and perhaps even aid efforts to assist branch staff, there is a large contingent who would rather forego using video chat, unconvinced of the business use case.

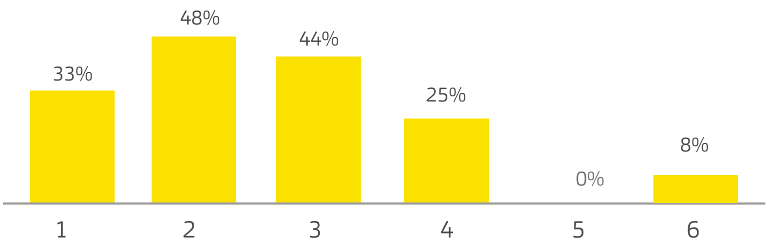
Best Uses for Video Chat in the Bank Branch



How Technology is Supporting People in the Branch

Know your customer, not just from a compliance standpoint, but as a means to serve them better. This is one of the resounding objectives most banks are aiming to achieve. In fact, 48% of survey respondents intend to use tablets with real-time CRM insight to enable cross-sell opportunities and identify next best actions when customers are in the branch. 44% intend to use technology to create customer-facing digital experiences for assisted sales and advice. 33% plan to use a tablet with real-time, in-branch customer analytics such as waiting time and impulse browsing on product catalogues. Finally, 25% plan to use cash recycling machines to circumvent ATM limitations. Interestingly, none of the respondents indicated that they would be pursuing people-less branches.

Technology to Support People

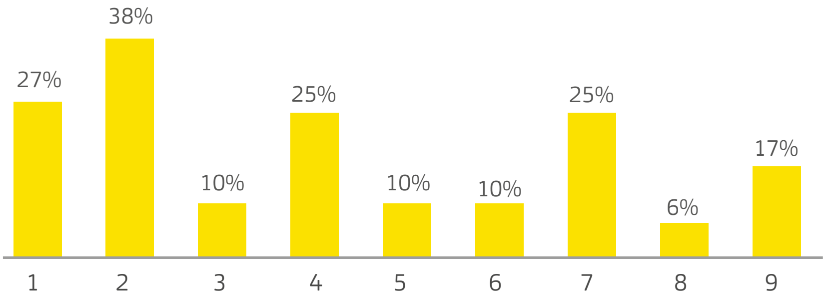


1 A tablet with real-time, in-branch customer analytics (eg. wait time)
2 A tablet with real-time CRM insight (eg. cross-sell opportunities)
3 Digital experiences for assisted sales and advice
4 Cash recycling machines
5 We will not have people in our branch
6 We will not provide people with technology tools

When should the branch use gamification?

The top two uses for in-branch Gamification are edu-tainment about products and services (38%) and entertainment while waiting (27%). However, there are plenty of other opportunities for the branch of the future to incorporate elements of gamification into their branch strategies. Other popular uses, in order of priority were: staff training, to speed up digital migration, edu-tainment about products and services, education about spending habits, promoting sales competition, or just having a bit of fun. 17% of respondents, however, did state that gamification does not belong in branches – which perhaps is indicative of the type of brand identity these branches want to communicate to their prospects, customers, and employees.

Gamification in the Branch

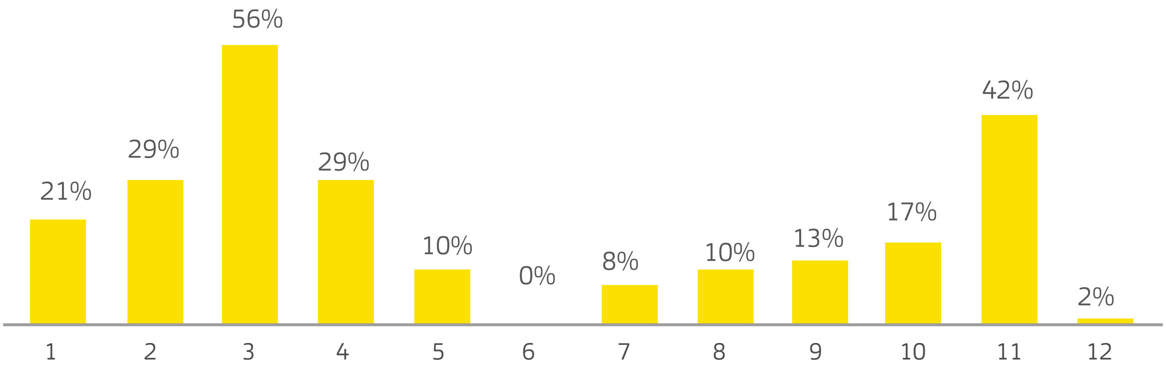


1 Entertainment while waiting
2 Edu-tainment about products and services
3 Edu-tainment about financial advice (eg. retirement planning)
4 Staff training
5 Education about spending habits
6 Promoting sales competition
7 To speed up digital migration
8 Just having a bit of fun
9 Gamification does not belong in branches

How to incorporate emerging technology to appear the most cutting-edge?

The largest percentage of respondents say that touch screen devices (interactive walls, tables, and tablets) make the digital branch appear the most cutting-edge over all other technologies (56%). This is unsurprising given the attachment to mobile devices, futuristic images portrayed in popular cinema, and especially how companies like Apple have set the standard for high-tech, elegance throughout its stores. To be cutting edge, branches must consider how other technologies can be incorporated into their technology aesthetic and their functional strategy. Video billboards are increasingly ineffective without some form of interaction and customer engagement. Other engaging technologies in the branch include biometrics (42%) like facial, finger, and voice identification that contextualize digital messaging, build personalized customer journeys and provide greater security assurances. 29% of respondents equally suggested BLE Beacons and Interactive Teller Machines (ITMs) / Virtual Teller Machines (VTMs) could also be a value implementation of "cutting-edge" technology. 21% are even considering virtual reality and augmented reality solutions.

Cutting-edge Technologies to use in the branch



1 Virtual Reality / Augmented Reality
2 BLE Beacons
3 Touch screen devices (walls, tables, tablets)
4 Interactive Teller Machines (iTMS) / Virtual Teller Machines (VTMs)
5 Robots
6 Drones
7 IoT sensors
8 Voice-activated devices
9 Chatbots
10 Artificial Intelligence
11 Biometric identification (eg. facial, finger, voice)
12 None

The key take-away of the survey focused on branch technology is that there is no one right-size technology solution, and aligning the right technology with the right use case for the right reasons needs to be the guiding force behind the technology implementation strategy.

Emerging Technology in the Banking Branch

Emirates NBD and Digital-Driven Customer Service

The Problem

Despite the rapid rise of digital banking and significant downward trend in bank branch foot-traffic, bank branches are still seeing steady visitors. Emirates NDB noted that while 87% of the bank's transactions were performed digitally, their branches were still doing a significant amount of business. Branches shouldn't be phased out in favor of going digital; however, they could be elevated to meet digital banking standards.

Emirates NDB saw an opportunity to help its branches achieve a similar level of convenience, satisfaction, and ease of digital banking while offering valued human interaction to customers. By achieving this, they could leverage the "wow" factor of digital-inspired branch enhancements to onboard customers to underutilized digital banking services.

To identify the aspects of the branch experience most in need of the "digital experience" touch, Emirates NDB took the customer's perspective and mapped their customer's end-to-end journey. From this, they identified three aspects that would benefit from a digital approach.

1. Customer wait times were far too long.
2. Transaction processing time was significantly longer in branch than via mobile or web applications.
3. An app knows everything about the user's account and can specifically offer information and deals relevant to the individual. Branch bankers only knew what the customer specifically told them during their interaction.

The sum of these created an impersonal experience for the customer, leading to lower customer satisfaction.

The Solution

To bring the convenience of the digital experience to the branch, Emirates NBD created the Time Saving App for tablet – a solution designed for employees branded Digital Champions. These bankers are empowered to perform services such as debit card replacement, checkbook requests, balance inquiries, and statement authentications – requests that constitute over 75% of the branch requests.

The foundation of Time Saving App is the integration of the bank's advanced Customer Relationship Management (CRM) and a cutting-edge queueing system. The new process allows customers to get a service token via the bank's mobile app or have one served to them upon entering the bank through a queueing machine, providing a customer with a wait-time estimate. Each customer is authenticated instantly by the machine via debit card or mobile account and can input their reason for visiting the bank.

Through the Time Saving App and tokens, Digital Champions are alerted to all customer visits and provided an instant view of all active tokens, waiting time per customer, detailed customer profiles and the purpose for their visits. Using this information, Digital Champions can make quick prioritization choices, ensure no customer is waiting too long, and fast-track customer needs. When engaging with a customer, the app uses cutting-edge signature verification technology to reduce transaction processing time and provides all applicable charges upfront prior to processing for increased transparency. Digital Champions can also use the customer profile to identify cross-sell opportunities and easily transfer the customer token to a Sales Advisor on site to expedite the hand-off process. Upon concluding the customer engagement, the app calculates the amount of time saved which the Digital Champion can share with the customer. Emirates NDB also uses this data to calculate internal branch Key Performance Indicators (KPIs) and provide increasingly accurate wait-time estimates for customers.

One of the primary goals of the Time Saving App initiative, however, was to guide more customers to the company's digital banking offerings. By normalizing the digital banking process for branch customers and providing in-person education, Digital Champions can help make less-technically inclined customers more comfortable making the digital leap. Through the Customer Management System (CMS), Digital Champions are made aware of whether or not a customer is currently registered with Emirates NDB's online and mobile banking. Through the Time Saving App bankers can either help customers activate their digital accounts or even send an SMS to the customer's phone with an invite to download the mobile banking app.

In addition to helping customers to prepare for the shift toward digital banking, mobile banking apps also have allowed Emirates NDB to introduce beacon technology at its branches. This has enabled the bank to greet customers entering the branch, inform them of location changes to their preferred ATMs, send targeted product and campaign content, use push notifications to provide real-time offers and promotions at merchant locations, and empower the customer to provide instant service feedback.

The Results

Emirates NDB has seen immediate returns from the Time Saving App initiative, which has already seen widespread deployment in its branches. It has been a true case of technology being used not to replace employees but to empower them. Due to its instant success, the bank has already begun working on additional services it can integrate. One future update includes a mode that converts time saved into benefits for the community through a donation mechanism, helping Emirates NDB to make a positive impact on a community level.

Some of the benefits of the Time Saving App include:

- Over 80% reduction in wait time since launch
- 60% increase in customer satisfaction
- 70% reduction in transaction processing time at the branch
- 93% reduction in check book ordering time
- 80% reduction in card replacement time
- 30% increase in mobile and digital activations

People in the Branch

With branch networks shrinking and evidence pointing toward the redundancy of the teller role, what do bankers see as the future of staff in the branch? In an age of robotic process automation and increasing Artificial Intelligence investment, the role of branch staff has never been more under the microscope. The report aims to establish what, if any, role people will play in the branch and how the bank's leadership view the value of the human touch. News of robots like Pepper in the branch and industry pressures to reduce costs through FTE reduction continue to cause much debate, but with a change in the purpose of branches from transactional to advisory, are humans still viewed as key to building relationships and sustaining trust with the customer?

The Future Role of People in the Branch

Man vs. Machine: What does the future of the bank branch mean for the human banker?

As banks weigh the option to close branches in search of cost savings, they are also faced with the dilemma that most customers still see the value in having a physical location to visit.

Subsequently, financial institutions are challenged to envision how they can provide a greater return on further investments into the branch network. Ultimately, they need to transform their current branches to foster more positive and user-friendly experiences to keep up with the tech-savvy preferences of today's customers, while still ensuring profitability and a service catalogue that is best suited to physical distribution. In an age in which robotics and automation are moving toward making certain roles redundant, the role of branch staff has never been so important.

The Future Role of People in the Branch

People or People-less

Humanless bank branches have already begun to surface, fitting right into trends of automation and self-service experiences. While many would argue that humanless branches lack the personal touch needed to foster a relationship with customers, others would say that the relationship is best provided through contextual and real-time advice through the mobile. The truth is that there is no one size fits all, and increasingly banks will start to deploy multiple branch models, each with their own motives and objectives. The hub and spoke model of physical distribution will incorporate fully staffed branches, self-service kiosks, and smart ATMs to fulfill a range of services spread over a geographical footprint. While digital-only banks have certain advantages, such as significantly lower overhead costs, branches offer the opportunity to build closer relationships, offer advice on complex products and provide a comfort factor that in times of need, there is someone physical with which to talk. People are still integral to the success of branches, even if it means that their roles are now significantly different to those of five or 10 years ago.

Off-premises employees or remote advice centers are a way banks can employ their digital strategies without having staff in the physical branch and offer specialist advice more readily. Historically, it has not made sense to offer wealth management advisors or investment specialists as an in-branch service as these tend to be expensive employees and footfall would not justify their roles. A centralized model however, allows them to offer such services through the use of real-time interactions and augmented with video chat support. In a fully automated branch, technology has evolved and become mainstream such that customers could be connected by screen to a call-center advisor and use video-chat-enabled tablets or devices within the bank for customers to connect with investment specialists based on their specific needs, allowing banks to centralize advice, and in some cases decentralize credit risk decisions, as is the case with Handelsbanken in the UK. Similar to FaceTime and Skype, many of these customers will already be comfortable with these sorts of familiar interactions, and can still be "face-to-face" with the banker assisting them even if its 'virtual'. Video banking is what skype did to the analogue phone call.

Though machines, and humans through machines, can duplicate much of the work bank workers currently do and connect customers to human specialists off-premises, these interactions still may not live up to the trust-relationship many customers value when visiting the bank branch. By being able to sit and form a relationship and repertoire with the person they are dealing with, banks can add unique value and an additional layer in the customer experience. Though digital interactions within the branch may work for some patrons of the bank and would drive down costs for the bank once the technology is fully operationalized, there is a reason that the physical brick-and-mortar branch still holds value, even in a prevalent digital-first environment. Taking too much of the familiar out of these branches may be just as detrimental as closing their doors entirely.

When surveyed on humanless branches, banks varied considerably in their responses. 46% said the technology is not ready now, but humanless branches would be effective in the future. 35% said humanless branches will never work; customers like to deal with people. 27% said humanless branches do not work now, but they left the door open to whether or not they might work in the future. Finally, 3% said they do not have branches, and therefore, they are already employing a humanless and branchless model. (See pages 44-47). Given the split view on humanless branches, this provides an opportunity for employees to demonstrate the truly unique value they can provide to customers within the branch to solidify their position within the branch of the future. Similarly, the findings highlight that as technology evolves, banks are open to embracing human less and self-service technologies.

The role of the human in and out of the bank branch

According to the Efma-Synechron survey, humans play the biggest role in advisory (73%), sales (70%), and customer service (51%) within the bank branch. Because such interactions are so crucial to sales, banks look to cater to different kinds of customer needs to bring in the most value to the most amount of customers, and in turn, more value and success to the institution itself.

By employing versatile and well-rounded bankers in the branches, the bankers can utilize the technology to supplement their knowledge and skills so that just one banker can help customers with a full suite of tasks and advice rather than one specialized area requiring more bankers and longer wait times for customers seeking more popular services such as mortgage or retirement advice. Customers reap the benefits while the bank employee's role evolves to work in an integrated way with innovative technology tools, rather than working against each other. In a highly-digital branch, the banker can also be on hand to assist customers who need help understanding how to interact with the technology to achieve their desired task. While a traditional transaction-only teller may become outdated, a banker that can act as a teller, but then also give advice using diverse specialized skill sets supplemented by the technology within the branch will provide a much more well-rounded and complete experience.

Additionally, some branches, or some locations, are better suited toward human-staffed branches. For instance, relationship-based community and regional banks rely specifically on the loyalty of local clients who come in for the sake of the relationship-building aspect and the personal connection they feel, because they understand the role the bank plays in the community, rather than going to a big bank. Small business owners operating with large sums of cash in cash-only businesses also rely on tellers within the bank branch.

While the bank of the future will operate in a more digital, interactive fashion than today's traditional branch, it is still up for debate whether the physical branch will thrive without human employees staffing the locations. However, there is an opportunity for banks to leverage technology in a strategic way to better serve their customers and for bankers to learn to be a conduit to these technologies rather than resisting. There is no question that these emerging technologies will play an important role in retail banking. The question remains how branch employees can demonstrate their value-add by learning to embrace these tech tools and in turn, better serve both the bank and the customer.

The Future Role of People in the Branch

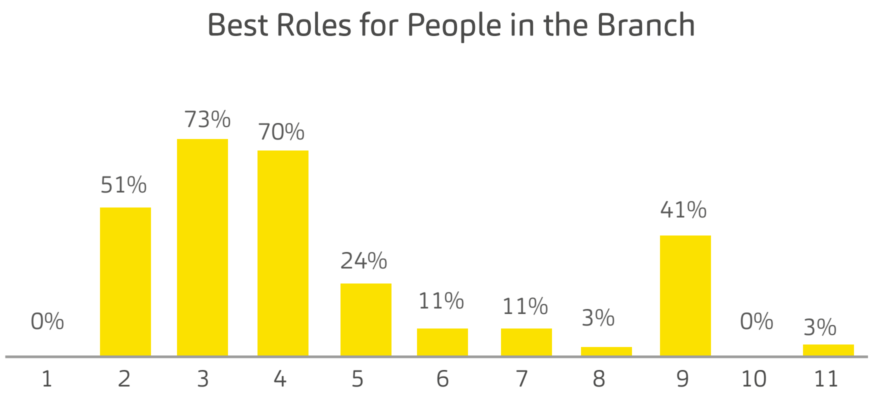
The Role of People

While technology will play a key role in the branch of the future, another aspect of that strategy will need to consider how technology is being used to augment, enhance, and empower branch staff.

The Efma-Synechron survey found that a peopleless branch is not the preferred model. Instead, banks are looking to reimagine the role of the branch staff and how technology can be used in an assisted experience that supports branch staff in providing an emotional connection for customers that digital technologies can't provide and at the same time having access to artificial intelligence that enriches the dialogue between bank and customer.

What should people do within the branch?

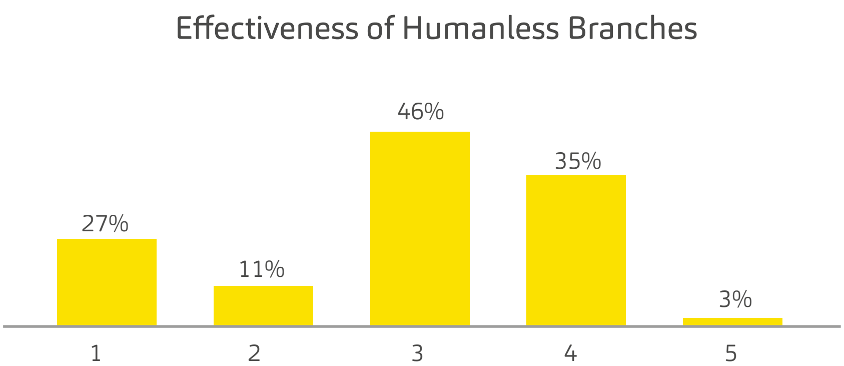
According to the survey, the top areas where people can add value in the branch are advisory (73%), sales (70%), customer service (51%), and as a universal banker (41%). These areas primarily focus on high-value, high-margin banking services that may have long sales pipelines or the need for layered educational approaches with customers, making it an ideal opportunity to offer a range of options for customers on how they gain access to sales and support information.



1 Tellers
2 Customer Service Represetatives
3 Advisory\Specialist Advisory
4 Sales
5 Customer Complaint Handling
6 Cash Transactions
7 Product Inquiries
8 Common Transactions (eg. Bill-Pay, Check-deposit)
9 Universal Banker (Can do everything)
10 There will be no people in our branches
11 We will not have branches

What about Humanless branches?

On the topic of humanless branches, the banks surveyed varied quite dramatically in their responses. 46% said the technology is not ready now, but humanless branches will be effective in the future. 35% said humanless branches will never work; customers like to deal with people. 27% said humanless branches do not work now, but they left the door open to whether or not they might work in the future. Finally, 3% said they do not have branches, and therefore, they are already employing a humanless and branchless model. Given the split view on humanless branches, this provides an opportunity for banks to demonstrate the truly unique value their staff can provide to customers within the branch. Similarly, the findings highlight that as technology evolves, banks are open to embracing humanless branches.

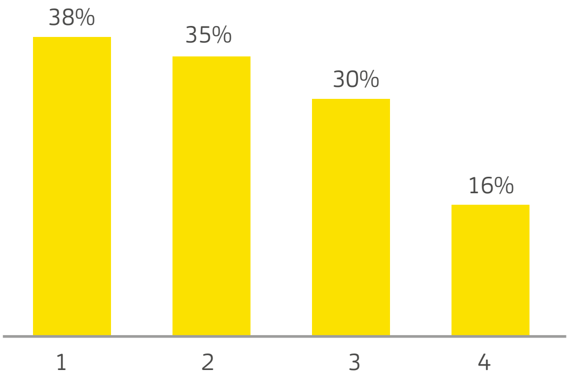


1 Humanless Branches do not work now
2 Humanless Branches are incredibly affective
3 The technology is not ready now, but humanless branches will be affective in the future
4 Humanless branches will never work; customers like to deal with people
5 We do not have branches

Should branch staff be able to make credit decisions?

One of the more controversial questions in the survey was whether branch staff should be able to make credit decisions, and opinions varied greatly with 38% saying credit decisions are best managed in a centralized model, 35% saying credit decisions are best handled by branch staff, in a decentralized mode, and 30% saying credit decisions should be made by technology (e.g. AI or a rules-based algorithm). A further 16% of respondents said they had no opinion on the topic.

Branch Staff and Credit Decisions

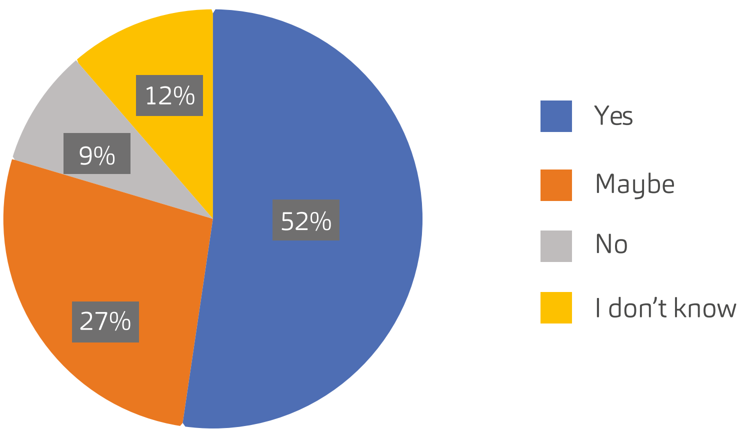


1 Credit decisions are best managed in a centralized model
2 Credit decisions are best handled by branch staff, in a decentralized model
3 Credit decisions should be made by technology (eg. AI)
4 I have no opinion on this topic

Will digital branch transformation lead to a reduction in headcount?

In response to this question, 62% of those surveyed said they plan to reduce overall digital headcount across bank branches, 32% said they might, 11% said they had no plans to reduce headcount, and 14% of respondents didn't yet know if they'd reduce their headcount. While it is undeniable that overhead and operational costs are putting pressure on banks to close branches and rationalize their headcount, and many do have plans to reduce personnel as they implement their digital branch strategies; others, actually don't or have not yet made that decision.

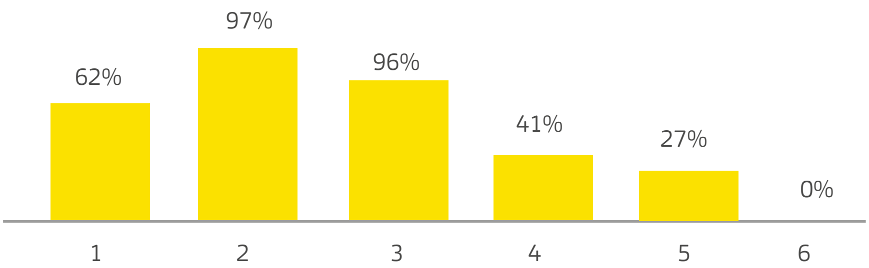
Will Digital Branch Transformation Lead to Reduced Headcount?



Where can people provide unique value to customers within the digital branch?

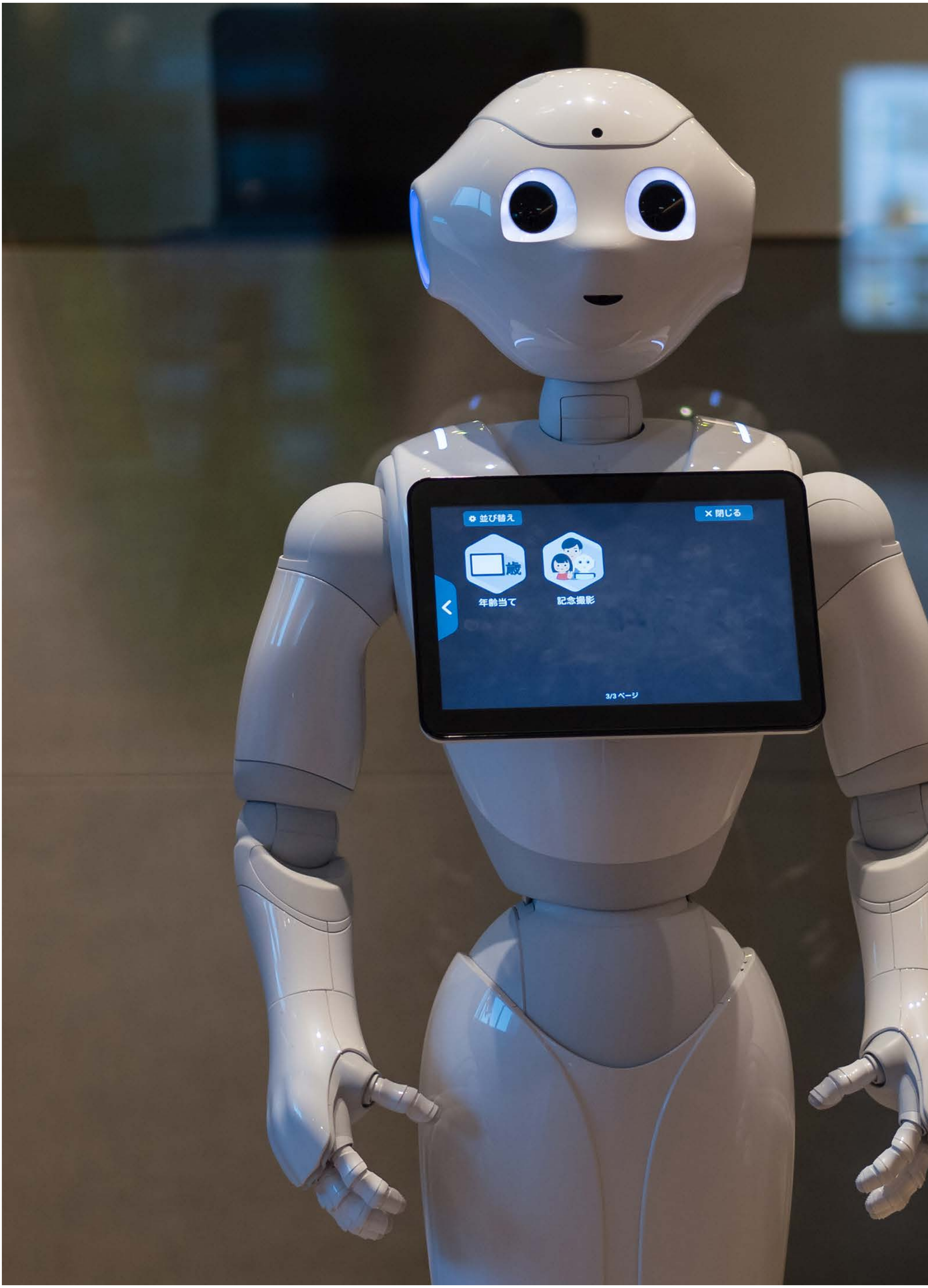
97% of respondents said only people can bring an emotional connection to the branch. This shows that while there may be an overall reduction in the number of people supporting branches, again, the people-less branch model is not the trend. More so, branches will be rationalizing their headcount and using technology to optimize the services and functions people provide to customers. In addition to providing an emotional experience, people bring to the branch a more personalized experience (76%) and the opportunity to build a trust-based relationship (62%). 41% said people also contribute a feeling of stability and security to the branch which is not possible with technology solutions. 27% admitted that people could also support a more high-touch service model. Perhaps most importantly, no one said that humans do not add value beyond that technology alone can provide.

Uniquely Human Value-adds



1 A trust-based relationship
2 An emotional connection
3 A more personalized experience
4 A feeling of stability and security
5 A high-tough service model
6 Humans do not add value beyond what technology can provide

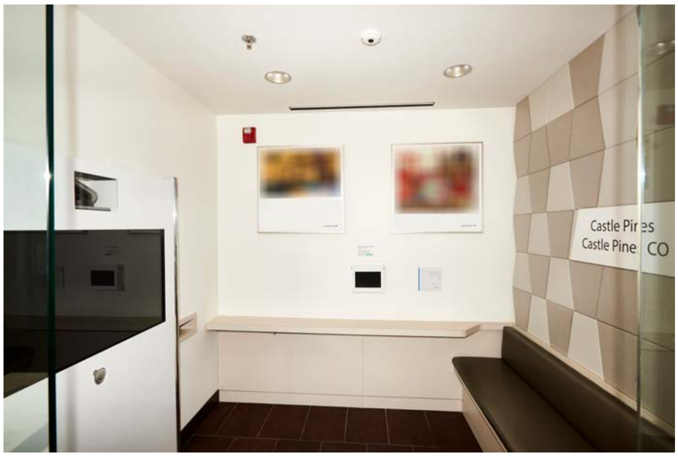
Whether it is via a universal banker role or somewhat of a hybrid teller and service representative, people will have a role to play in the branch of the future. Banks will be best served if they can clearly communicate what jobs of the future will look like in their digital bank branch to both employees and customers to generate the buy-in and excitement they will need in order to implement their new-found strategies and drive forward their success.


並び替え
閉じる
歳
年齢当て
記念撮影
3/3 ページ

The Future Role of People in the Branch

Human Bankers and the Technology-Enabled Alternatives

As global banks think through their strategies of how to integrate people into their bank branches (or not), there are several leaders in the industry who have done it well where they can follow their lead.



Bank of America:
A Branch Without People

The Problem

Since 2010, Bank of America has undergone an initiative to drastically roll back its expenses, cutting billions along the way. Many of those cuts have come at the expense of branches, reducing the total from 5,900 in 2010 to 4,579 at the end of 2016. Branches are expensive to operate and digital, direct banking has shown to be more convenient for consumers at a significantly lower overhead.

Despite the trends, this is not to say that branches are dead, especially for Bank of America. Bank of America sees one million people a day enter its branches and interact with its employees. Furthermore, the bank has long leaned on its vast network of branches as a primary value proposition. True to its business model, Bank of America still plans to open additional branches this year, as it has each year. Rather than simply close branches, the immediate solution has been branch consolidation. However, consolidation is merely a short-term solution to a growing, long-term problem: high branch overhead and decreasing traffic makes overseeing an expansive branch network financially unsustainable. Therefore, Bank of America needed a means to retain and grow upon its significant branch presence at a fraction the cost.

The Solution

In February of 2017, Bank of America announced the roll-out of a trio of “robo-banks” – entirely humanless bank branches that offer all the services of a traditional branch, at a fraction of the overhead. At just a quarter of the size of a traditional branch, the savings are immediately seen in real estate expenses alone. The key differentiator is the Video Conference Meeting Rooms. Accessible only via Bank of America cards, these centers provide customers with secure, direct video communication with bankers fully capable of discussing more complicated banking issues such as mortgages, retirement planning, small business banking, loan applications, and more. Appointments can be made with the bank’s mobile application for maximum convenience.

In the initial launch, Bank of America has assigned temporary, on-site “Digital Ambassadors” to help ease customers into this new way of banking. However, the goal ultimately is to eliminate all human staff at these branches. This fits the bank’s overarching strategy which increasingly has moved away from the “one-size-fits-all” bank branch model. While human-staffed branches still are expected to be the norm, the prospect of a fully-automated robo-bank would allow Bank of America to expand into less population-dense locations where the cost of a traditional branch would otherwise be unprofitable.

The Results

Currently, the robo-bank is in a test phase. However, Bank of America has announced that it will open 25 additional robo-banks across the country in 2017. If customers are willing to accept humanless banking replaced by robotic interactions, the bank could see a number of benefits from this approach including:

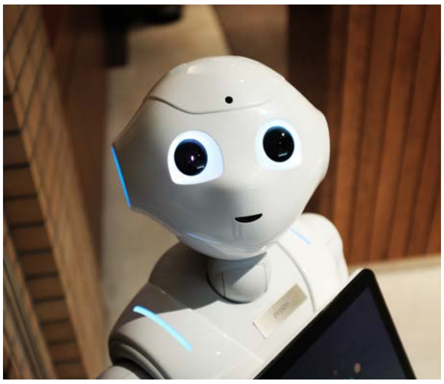
- Significant cost savings in real estate and staffing.
- An increase of bank branches, most notably in untapped regions.
- Additional flexibility to pick the best branch model for each location.

Other banks have taken a step toward humanless branches in a very different way: through Artificial Intelligence (AI) and robotics. While there are no cases of robots completely replacing human employees, advanced AI has enabled them to perform a variety of human tasks.

Mizuho Bank – Pepper the Robot

The Problem

Mizuho Bank sought to separate itself in a competitive market that has seen many banks become indistinguishable from one another in the eyes of the consumer. It wanted to separate its brand and brand itself as a leading innovator as well as create an environment that is comfortable, entertaining, and reliable to separate itself from traditionally, formal Japanese banks.



The Solution

Inspired by a popular Japanese anime, "Astro Boy," Mizuho created a humanoid robot named Pepper, powered by IBM Watson. Watson, a powerful question-answering AI system, combines powerful, multi-lingual, Natural Language Processing (NLP) and advanced Cognitive Machine Learning techniques which Mizuho used to teach Pepper about its products, and enable Pepper to understand and communicate complex financial terminology in easily digestible ways. Pepper is capable of investigating and analyzing a visitor's interest in various financial products through conversation or a variety of games. Through entertainment, Pepper can engage with customers in ways traditional bankers can't, introducing sales products in playful and easy-going interactions that lighten the customers disposition toward being sold financial products.

The Results

Early feedback on Pepper has been positive, and the mass publicity gained has made tremendous strides in positioning Mizuho as accessible and different from the average Japanese bank. The in-branch successes also have been notable as customer visits are up 10% in the eleven branches featuring Pepper, with 15% of those visits ending with a contract.

Banco Bradesco – Artificial Intelligence for Bankers

The Problem

Banco Bradesco takes pride in using the latest technology innovations to improve upon customer service and operational efficiency. When evaluating its branch operations, it determined that branch employees were regularly being asked complex questions regarding Bradesco products and services that required them to seek out answers individually. The existing practice of information gathering was not only cumbersome, but expensive.

The Solution

In 2016, utilizing IBM Watson, Banco Bradesco created Bradesco Artificial Intelligence (BIA), a Chatbot system that its bankers can defer to for answers to the complex product and services questions they face, backed with the knowledge and accuracy of Bradesco specialists. The Cognitive Learning technology enables BIA to remain current with all Bradesco offerings as well as improve upon answer accuracy over time. By equipping employees with BIA, each employee becomes an expert in all products and services, vastly improving efficiency and allowing that knowledge to be passed along to the customer in a fraction of the time.

The Results

Within the first year, over 140,000 questions have been answered with an accuracy that is equal to all human metrics and with a response time of less than 10 seconds. BIA has been such a success, that due to overwhelming branch requests, Bradesco intends to roll it out to all 5,600 branches by November of 2017.

---

[11] *Roberts, Deon. "Bank of America testing 'completely automated' branches." Charlotte Observer. Charlotte Observer, 07 Feb. 2017. Web. 10 July 2017.*
[12] *Heath, Thomas. "Bank tellers are the next blacksmiths." The Washington Post. WP Company, 08 Feb. 2017. Web. 10 July 2017.*

No-Size-Fits-All:
Where do Bank Branches Go From Here?

The changes to the banking landscape in recent years are undeniable. The rapid adoption of the smartphone and the advancement of digital banking has heavily impacted the effectiveness of branch banking. Branch strategies that worked in the past are no longer profitable models, however it is unfair to say that branches don't work, they just need to evolve.

Transformation takes many shapes, and as noted in the survey, many bankers still believe that the most effective services are provided by branch staff like specialist advisory, sales, and customer service. There is already a trend underway to transform the branch model, as banks have increasingly shifted their branch strategy toward sales and financial advisory services, allowing digital-only channels to absorb the lion's share of everyday transactions. With this strategic pivot comes increased focus on a more sustainable branch model, but it may only be the first phase in the evolution of the branch. Joint venture or co-branded branch models are increasingly showing that operating costs can be reduced and the branch can become a destination of choice, as is the case with Café Banking and the success that banks like Alawwal have seen from this approach. To maintain relevance, as Emirates NDB noted with their Tablet Banking initiative, branches will need to evolve to meet the high standards set by digital banking.

Much like evolution, innovation is born from necessity. The necessity for innovation has never been clearer than in the branch, and banks have risen to the challenge, thinking outside the box. Today's new branches take bold aesthetics approaches, redefining what it means to go to the branch, integrating cutting-edge technology, and converging the physical and digital worlds. What is abundantly clear from the survey is that banks still believe in the value of the branch and will continue to invest in making them successful. Even more importantly, customers like banks to have branches, and in this time the customer is not just king, they are dictator.

What may be the most important factor during this phase of branch evolution is recognizing that no longer do branches have a "one size fits all" model. Be it aesthetic changes, experiential marketing, or the introduction of new technology, location needs to be considered now more than ever. Umpqua's success in America's Pacific Northwest can largely be tied to how it embraces the attitude, personality, and community of the region. Similarly, Australian banks Westpac and Bank Australia have success attracting younger customers by branding themselves as ethical, socially conscious, and dedicated to both social and environmental causes. However, what works for them may not be a cultural match for another region. One region may culturally reject automation in favor of that empathetic human touch, while another will prioritize the speed and efficiency of streamlined self-service.

As Bank of America's strategy has shown, automation may make branch banking a viable option where it previously was not by considerably easing cost pressures with technology. Banks such as Citi, Deutsche Bank and ABN-AMRO, who utilize a similar strategy of maximum branch coverage but on a global scale, may find automation to be a key component in their global expansion strategies. Interestingly digital-minded banks like ING Direct, who pioneered the concept of café banking, but have now got no footprint are looking for ways to open new branch networks. Mizuho's Pepper was designed entirely with Japan's culture in mind, based on a popular Japanese anime character, trained to engage with customers in a way rival banks don't and released to a culture that CNBC declared was "obsessed with robots". But while Pepper has been a huge success in Japan, not all countries would be willing to engage in financial conversations with something out of science-fiction.

Keeping regional dynamics in mind, it's clear that there really is no single branch of the future, but rather a myriad of branch models that are more diverse than ever before. The advent of the hub and spoke model in which ATMs, Self Service Kiosks, pop-up branches and full service branches all co-exist is indicative of the industries diversity. Branches are increasingly serving more customer segments like retail, small businesses and even private banking clients.

Underscoring that point, perhaps some of the most diverse responses in the survey came when respondents were asked to identify the most important considerations in a branch transformation. The diversity of answers – none over 42%, but seven over 25% - further indicate the many directions are being taken (not a single approach) and that there will be many futures for the branch, increasingly targeted based on geography and tailored to the customer.

One consideration all banks can benefit from is the use of emerging technology not to replace employees, but to empower and assist them. From the atmosphere-driven coffee shop of Capital One's 360 Café to the tech-forward, AI-driven Banco Bradesco, the universal banker role is being embraced. Gamification can be used to train employees, tablet apps can simplify the work day-to-day, and AI Chatbots can grant any employee an encyclopedic knowledge of their bank's every products and services. Even if a bank's branch strategy doesn't include fancy redesigns or high-tech gadgets, employing a well-trained and knowledgeable staff is a strategy that maximizes existing resourcing. Technology is also being used to increase efficiency, differentiate the customer experience, and build trust with an 'always connected' customer.

Yet with all of the opportunities for positive change facing the bank branch, the place for the branch in an Omni-channel strategy has never been more important. Pressure from Fintechs and Digital-only challengers still cause debate and the need for branch justification continues unabated. While most banks have released mobile apps or even pushed digital products, an effective omni-channel strategy requires significantly more than having a website, a mobile app, and a branch. A cohesive business and digital strategy needs to be in place to create a customer experience fit for the times. Many banks such as Capital One 360 and Alawwal have used their branches as a means to educate their customers on the capabilities of digital banking and have prioritized digital user activation within the branches. Aside from elevating new levels of operational excellence and customer onboarding, these banks are driving stickiness amongst their customers as they transition to mobile banking as a primary channel. On the other hand, both Emirates NDB and Bank of America have enabled customers to book face-to-face or virtual meetings on their mobile banking apps, encouraging more mobile-centric customers to set up high-value branch visits for sales, mortgages, retirement planning, business loan applications, and more by eliminating the in-person wait in favor of an advanced appointment with a specialist advisor.

While the FinTech revolution and digital disruption have called into question the future of the bank branch, if recent years are any sign, bank branches have risen to the challenge and are finding new ways to adapt to global, regional, and local needs. There is no universal answer to what the future of the bank branch will look like, but rather, a vast array of ingenuity and innovation has introduced new value propositions, new business models, new experiences and smarter branch staff. Banks are creating new, digital-enabled business models every day, and for now the bank branch seems here to stay.

About the Authors

Synechron is a global consulting and technology organization providing innovative solutions to the financial services industry through its three main business focus areas: digital, business consulting, and technology. Based in New York, the company has 18 offices around the globe, with over 8,000 employees producing over $500M in annual revenue. For more information on the Company please visit

www.synechron.com

As a global not-for-profit organization, Efma brings together more than 3,300 retail financial services companies from more than 130 countries. With a membership base of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups, online communities, and international meetings. For more information, visit

www.efma.com

Our global locations have you covered.

For more information, permission to reprint or translate this work, and all other correspondence, please email: **marketing@synechron.com**

Synechron

Digital / Business Consulting / Technology

www.synechron.com