

EXCERPT FROM 2011 WORLD RETAIL BANKING REPORT:
Branch of the Future



2011

WORLD RETAIL
BANKING REPORT





Six Key Themes Are Shaping the Channel Landscape and Redefining the Role of the Branch

THE BRANCH REMAINS A KEY CONSIDERATION IN OVERALL DELIVERY STRATEGY

In today's environment, the most important consideration in developing an overall channel strategy is determining the role of the branch. Some banks will choose to put the branch near or at the center of the customer relationship, while others will minimize its role, or eliminate it completely. Banks may choose one or several approaches, depending on the preferences of specific segments within their customer base. These segments may be differentiated on the basis of geography, age, channel usage, or any one of a number of other factors.

Once the branch's appropriate role in the delivery strategy has been identified, banks need to develop an execution strategy. This will require banks to selectively address the current branch challenges related to layout & design, technology, sales & service, and staffing. For example, banks that choose to put the branch at the core of all channels will need to address the issue of empowering branch staff and managers. This is less of a factor for banks seeking to move their branches into partnerships with existing retail outlets, and not one at all for banks pursuing a branchless scenario.

BRANCH TRANSFORMATION IS CONSTRAINED BY BUDGETS AND STRATEGIC FOCUS

Some branch-related challenges will need to be addressed during a one- to three-year timeframe to gain competitive advantage, while others will have longer time horizons of three to five, or even five to ten years. Budgetary constraints will likely play an important role in determining strategic timelines. Multi-channel integration, for example, should be addressed within three to five years, while customer personalization can be addressed over a five- to ten-year time horizon.

Banks have begun to experiment with different approaches to the branch, but few have articulated an overall channel strategy that clearly defines the role of the branch in a multi-channel, multi-product environment. We have identified six themes that are emerging around the future role of the branch in retail delivery. The themes differ from each other in terms of the emphasis they place on the branch and serve as a foundation for addressing channel preferences among different customer segments.



1. The Branch at the Core of a Multi-Channel

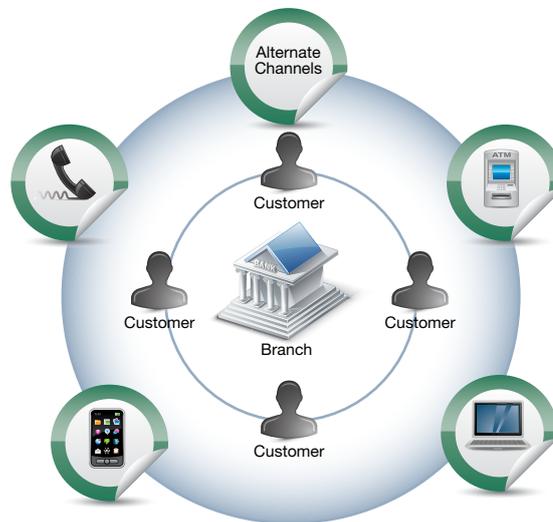
Network puts the branch at the center of the customer relationship. These full-service branches open and manage customer relationships, providing a full array of advisory and day-to-day transactional services. Direct channels are deployed more as aids to help customers carry out basic financial transactions or gather information on an ad-hoc basis.

Banks that deploy the branch at the core of the network need to design and equip their branches accordingly. These branches must have a comfortable layout and a welcoming environment. They should be conveniently located and easy for customers

to navigate. They should be staffed with trained professionals and take advantage of modern technology designed to let employees better serve customers.

Emphasizing the branch over all other channels is an ideal strategy for attracting high-value customers who are interested in pursuing a high-touch relationship with the bank. The drawback of such branches is their high operating costs, which include professionally trained staffers, design refreshes and upgrades, and sophisticated technology to support full views of the customer relationship.

Figure 19 Branch at the Core of a Multi-Channel Network



Source: Capgemini analysis, 2011.

CASE STUDY

Danish Bank Overhauls the Branch to Deliver an Improved Customer Experience

After decades of competing against bigger Danish banks, this bank sought to radically change the customer experience in every one of its branches. The goal of the program was to differentiate itself by truly meeting customers' needs, while promoting the bank's distinctive, low-key culture.

The bank redesigned each facility to be attractive, open and airy, and to draw customers in with free coffee, flat-screen TVs and lounge areas with magazines. The branches present products on shelves in physical boxes, much as merchandise is displayed in a retail outlet. Further, the products are designed around customer life stages. A mortgage loan, for example, might be positioned as a First Home product and combined with advice on how to purchase real estate.

Perhaps the biggest difference at the branches is in how customers are treated. The bank does not try to sell to customers, but instead creates an ambience that lets them relax and buy if they are so inspired. In addition, customers receive personal advisors who help them manage their finances and navigate the bank. The informal, quirky culture shows through in its logo, the amusing quotes it puts on bank statements and the games it stocks in its branch-based meeting rooms.

The program succeeded in attracting new customers to the bank. In the first six months after the program's launch, the number of new customers doubled. In addition, cross-sell ratios are increasing. Needs-based product presentations and the more retail-oriented environment are causing customers to purchase more products.



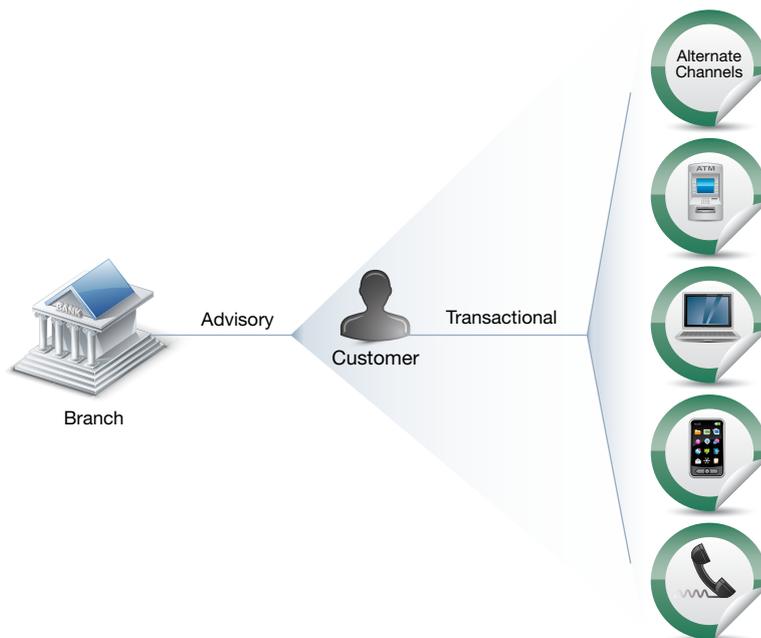
2. **The Branch As a Trusted Advisor** is an approach that recognizes the branch is moving toward providing advisory services and building trusted relationships, as day-to-day financial transactions move to direct channels. In this role, the branch is responsible for establishing relationships with clients and then deepening them through predictive sales processes and excellent customer support.

Banks that deploy the branch as a trusted advisor should focus on developing an in-depth understanding of customers, with the aim of delivering deeply customized and personalized services. Employees should be trained to act in the best interests of customers and be attuned to their needs. In-branch technology should focus on providing full views of customers, as well as relief from administrative duties so staff members have more time to focus on enriching the customer experience. Outside the branch, direct channels

must run smoothly and reliably to encourage customers to keep executing basic transactions through those touch points.

Positioning the branch as the focal point for advisory services requires a significant upgrading of staff skills. In particular, employees need to understand the regulatory guidelines covering branch sales of advisory products. They also need training in needs-based selling and in the products themselves, which are more complex than basic deposit products. The branch-as-advisor strategy also requires clear segmentation of the customer base to help identify customer needs and the best products for meeting them. Successfully implemented, this strategy should lead to greater volumes of high-margin sales in the branch, with low-value transactions being pushed to the direct channels.

Figure 20 Branch As a Trusted Advisor for Customers



CASE STUDY

European Bank Pushes the Branch into an Advisory Role

A European bank had become a victim of its own success in getting customers to execute transactions online. Exponential growth in its number of online banking customers led to a drastic reduction in the number of customers using the branch. The resulting pressure on branch profitability required the bank to significantly shift the role of the branch.

The bank responded with a two-fold strategy. It first sought to maximize self-service capabilities within each branch to handle routine transactions. It installed ATMs and kiosks, as well as online banking pods and assisted cash counters to facilitate basic banking transactions without heavy involvement by branch staff. Secondly, it enhanced the capability of the branch staff to provide advice. It hired and trained more relationship managers and advisors to provide customers with guidance around the bank's products and services. It also deployed a specialized sales force to assist customers on complex products like loans, mortgages and pensions.

Improving self-service capabilities in the branch helped the bank bring down the cost of operations throughout the branch network. Enhancing its advisory capabilities helped to expand customer relationships, while also strengthening the bank's brand positioning.



3. **Branch As an Independent Network** enables current and prospective customers to visit more often. In this approach, banks optimize the branch's role in customer acquisition by putting branches in places where customers already go, such as the grocery store, supermarket or post office. By working with other consumer-facing organizations, banks gain access to existing delivery infrastructures and built-in customer bases, reducing their costs and enhancing their acquisition and marketing efforts.

Drawbacks include a narrow focus on simple, low-value products and the small footprint of most of these outlets, which is not conducive to creating a welcoming banking environment. In addition, banks must be careful about privacy issues related to sharing data on customers. Finally, bank partners may become competitors. Retailers like Wal-Mart and Tesco, for example, have begun cross-selling basic banking services to their customers.

Figure 21 Branch As an Independent Network



Source: Capgemini analysis, 2011.

CASE STUDY

Belgium's BPO Pursuing Growth through Non-Proprietary Branches

When Banque de La Poste/Bank van De Post (BPO) was founded in 1995, it was at the forefront of banks distributing services through an independent network. This 50/50 partnership between the Belgian Post and BNP Paribas-Fortis, now serving more than one million customers, uses Belgian Post's postal offices to distribute a full range of retail banking services. With assets of more than € 9 billion, it is a medium-sized institution with the distribution power of a Tier 1 Belgian bank.

BPO is seeking to utilize its distribution capabilities by pursuing an ambitious growth plan. Its goal is to achieve annual sales growth of 6% over the next five years, compared to average annual growth of Belgian retail banks of 4% to 5%. A first step BPO undertook in this plan was to double its external communications spending during the financial crisis to position itself as a trusted model at a time when confidence in traditional banking was low. Today, 97% of all Belgians are familiar with the BPO brand and 95% (study 2010) of customers are satisfied or very satisfied with the service provided.

Another part of BPO's growth plan is to alter the stodgy image of the post office by introducing the "Bank-in-the-Post" concept. By carving out a modern and visible space in the post office, BPO aims to deliver financial services in a more professional and discrete way. BPO introduced 40 such concept areas in major post offices throughout Belgium by the end of 2010. By the end of 2011, it expects to establish 130 "Bank-in-the-Post" areas and 350 by the end of 2013. BPO is also making a € 40 million investment in technology to extend its multi-channel strategy. By 2014, it expects 10% of all products and services will be purchased through direct channels. BPO has always positioned itself as a bank with a human face where everyone is welcome and is further backing up its approach with the new tagline, "Simple, Secure and for All."



4. **The Branchless Bank** has no brick-and-mortar presence at all. It delivers banking products and services strictly through direct channels, including the internet, phone, mobile device, ATM, and even social networks. Branchless banks have been able to attract a loyal customer base by emphasizing their convenience and passing along the savings gained by not having a branch network in the form of attractive interest rates and reduced fees.

Branchless banks have taken different approaches to the market. Some offer everything from checking accounts to loans while others may emphasize a specific product; say a high-yield savings account, as the core product.

With no physical presence, branchless banks face a challenge in making themselves known to customers. Deprived of the marketing power that a widespread branch network can provide, branchless banks must rely on advertising and/or a prominent online or mobile presence. They then must sell customers on the promise of lower fees and higher rates, which is their primary differentiator. The main advantage of running a branchless bank is its greatly reduced cost structure.

Figure 22 The Branchless Bank



Source: Capgemini analysis, 2011.

CASE STUDY

Japanese Bank Becomes the World's First Mobile-Only Bank

For years, this large Japanese bank could see that it was losing touch with younger customers. As early and avid adopters of Japan's advanced mobile lifestyle, younger customers were less inclined to visit branches, making it difficult for the bank to expand relationships with them.

The bank decided to build a suite of mobile financial services so functional that they could stand on their own, without the assistance of complementary delivery channels. It opted to work directly with one of Japan's largest mobile phone carriers, to create a 50/50 joint venture that could quickly bring a rich set of new mobile banking services to market, without being bogged down by the bank's existing front- and back-end systems.

The resulting stand-alone institution was introduced in mid-2008 with the aim of being a full-service mobile institution. The bank offers a broad range of products, including transactional accounts, personal loans, credit cards, and even foreign currency-denominated savings accounts. The bank has worked to streamline account opening and banking activities to make them an easy and natural part of a mobile lifestyle.

The mobile-only bank has resonated with Japanese consumers. The bank added 1 million customers by May 2010, which equates to a compound annual growth rate of nearly 1,000%. Deposit growth has been even more impressive, reaching JPY 150 billion, for a CAGR of almost 6,000%. Nearly two-thirds of its customers are younger than 40. With 90 employees or about \$15.5 million in deposits per employee, the bank has approached the deposit-to-employee ratios of the Japanese megabanks in only two years.



5. **The Branch As Part of a Seamless Multi-Channel Network** is an approach that makes the branch an equal partner with the direct channels in managing the customer relationship. This approach recognizes that direct channels have become essential elements of the retail delivery experience. It also recognizes that banks have succeeded in pushing large volumes of low margin transactions from branches to the more cost-effective direct channels.

The biggest priority for banks pursuing the “branch as one channel of many” strategy is to break down the channel silos that currently hinder a seamless

retail delivery experience. Depending on a bank’s current level of channel integration, this could involve a large upfront technology investment and a high degree of business transformation risk.

Banks that succeed in making the branch an equal part of the multi-channel network will benefit by creating strong multi-channel capabilities and eliminating channel conflict. This will give them an advantage over their peers in being able to optimize channels to meet the needs of particular customer segments and in creating a more integrated overall channel experience for customers.

Figure 23 Branch As Part of a Seamless Multi-Channel Network



CASE STUDY

Rabobank Striving for Seamless Channel Integration

Rabobank is at an advanced stage of its branch banking evolution. The Netherlands-based bank has long offered robust access through direct channels: it currently hosts 20 million sessions of Internet banking and 2.5 million sessions of mobile banking every month, and in 2010 its customers downloaded 300,000 smart phone apps. The massive customer shift to online channels caused Rabobank to long ago improve the quality of its in-branch staff so it could position its branches to provide more advice-driven service.

Over time, Rabobank has sought to further clarify the role of each channel. Online channels are for executing transactions, ATMs are for distributing cash, and branches are for dispensing advice. At this point of its branch evolution, Rabobank's biggest challenge is to integrate all of its channels into a seamless network. The ability for a customer to initiate a mortgage loan on the internet and conclude it in the branch without repeating any steps, for example, is critical. By integrating the channels, Rabobank believes it can achieve its goal of making customers the main focus of the bank.

Rabobank has succeeded in optimizing channels. Branch visits now account for a small percentage of overall customer contacts and are oriented toward providing advice. Most routine transactions, meanwhile, go through direct channels. Nearly 45% of basic savings were held in internet savings accounts by the beginning of 2008. Having put channel optimization in place, Rabobank is prepared to establish a significant lead in achieving seamless multi-channel integration. In doing so, it expects to build long-lasting relationships with its clients through all channels.



6. **The Branch As a Physical Space for Virtual Interactions** is a premise that seeks to enhance trust and create brand awareness. In this model, the branch serves as an anchor for customers executing virtual transactions. These transactions may occur at self-service machines or through devices that use videoconferencing to connect to centrally located product specialists.

Often in this role, the branches also act as “experience centers,” designed to reinforce a particular brand image or value proposition. Such branches often feature banking as a secondary function, after customers explore more compelling activities like browsing merchandise, shopping online, enjoying a cup of coffee or taking part in a community event.

Banks pursuing this approach seek to draw customers in, while reframing the basic concept of banking. They may do this either by making

the banking itself more enticing, say through videoconferencing or a comfortable lounge area to discuss products, or by positioning the banking alongside other activities that may be of interest, say attending a small business presentation. Creating the desired look and feel in a destination branch can be an expensive proposition, requiring extensive creative input and an upgrading of staff skills.

In addition, banks will have to work at shifting customer perceptions to accept the new concepts.

Banks that succeed in executing this approach will stand out in the market for their innovation. They will have a unique way of connecting with and engaging customers. Properly executed, this approach should have a strong impact on reinforcing a bank’s brand image and customer value proposition.

Figure 24 Branch As a Physical Space for Virtual Relationship Management



Source: Capgemini analysis, 2011.

CASE STUDY

European Bank Positions Banking As a Shopping Expedition

This bank had a network of nearly 2,000 branches that were uninspiring, unattractive, and virtually indistinguishable from those of other banks. It wanted to introduce a futuristic banking experience that would re-energize both customers and employees.

The bank introduced its fresh take on the branch by creating a concept store that solidly evokes the idea that the bank branch is a place to shop. The bank sells not only its own products – packaged in attractive tin boxes stacked on shelves -- but also football merchandise and products from a revolving cast of high-end retailers. Bank employees circulate around the store, assisting customers just as sales clerks at retail outlets do. The branch features food and drinks, as well as a lounge area with books and magazines. Videoconferencing and smart technology like digital surface tablets support efficient, on-the-spot discussions.

The branch has made an extremely favorable impression on customers. The branch adds 50% more new customers compared to its traditional branches. In addition, more than 90% of visitors to the branch rate their experience there as excellent or good. The bank has succeeded in making banking a more pleasurable experience, while appealing to both the self-service and high-touch customer demographics.



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