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DIGITAL BRANCH BANKING

Introduction

It is a well-known fact that we live in a highly automated and digitized world where many of our daily actions, from the use of emojis in text messages to substitute for longer words, to household cleaning using futuristic gadgets, can be done with just a few clicks on a screen in the palm of our hands. This also applies to our interactions with our financial services organizations, especially banks.

In order to engage customers effectively and offer an elevated customer experience, banks are steadily trying to contend with their own traditional channels. By leveraging the digital experiences, banks are able to decrease the cost of services, offer better rates to customers, lower fees and streamline banking operations by increasing time efficiency. Needless to say, traditional banks are under threat by digital-only banks and non-traditional players that are able to provide banking services in a highly digitized fashion.

With the rapid evolution of technology that we are experiencing today, “digital” will continue to drive huge shifts in industry value –compressing revenues, enabling new disruptors, reassessing services and drawing market share away from companies that aren’t able to keep up with the pace. We are in a middle of a multi-wave trend that is redefining the new normal. Cloud computing, e-payments, and big data are no longer the talk of the industry. Instead, the pace of technological advancement is shifting the playing field, leaving leading banks with no choice but to enable or leverage this innovation to stay competitive.

What have banks done so far on the Digital front?

The industry has quickly matured, and banks have recognized that to succeed in digital, they must adopt the habits and culture of digitally native companies. As a result, banks have opened up application programming interfaces (APIs), pursued agile development and developed solutions and products around customer experiences and life needs. A vast majority of banks have also heavily invested in creating innovation centers and adopting digital touch points for their customers by significantly upgrading web and mobile technologies. Both help increase the revenue emanating from digital channels.

In addition, a large portion of the bank’s operational costs are still consumed in manual paper-based processes and within-the-branch real estate. Eliminating such costs could fund digital innovation offerings, providing a further push to increase the revenue stemming from new products, distinctive digital sales and lower costs of servicing.

There is an ever-growing pool of opportunities for banks to scale up their digital efforts by automating the manual processes and transform the customer experiences in physical touch-points i.e. branches.

Why Branch Banking is the next venue for Digital?

As of 2014, banking customers have reported completing over 80% of their transactions through online options without branch employees, leaving approximately 20% of the activities completed through a physical banking location.[1] Since then, the preference towards self-service banking has grown rapidly, with 92% of affluent baby boomers preferring online banking for paying bills, 88% for obtaining information about their bank and 87% for checking their balances online. Meanwhile, more than half of affluent millennials’ preferences are in alignment. Approximately 65% of affluent millennials pay bills online, 56% obtain information about their bank and 55% transfer funds online.[2]

Customers across all age groups are already ahead of many banks in the way that they use technology to manage their financial lives. Technology enables every aspect of banking to go online, and as cash usage becomes less common, where does traditional branch banking stand?

According to the Federal Deposit Insurance Corporation, several banks have significantly reduced their branch presence from 2012 to 2016 and even more so in the years since. Bank of America closed 243 branches (16%) in this period, Citi closed 302 (28.5%), Wells Fargo announced it would close 450 branches in the US, while UK Lloyds Bank confirmed it would close 100 branches.[3]

The trend is clear. Banking customers are increasingly turning towards “digital,” and in parallel a vast number of banks are quickly consolidating their branch network footprint. Where can digital branch banking make an impact considering the customers’ changing behaviors towards digital technology adoption? Is there a competitive differentiator that branches can bring which digital-only banking cannot? How should banks adjust their priorities to respond to the transformational shift in the way their customers do banking?

Without a doubt, we are entering a new technological era where banks must find a way to become more relevant in the daily lives of their customers. Digital banking channels are somewhat successful in catering to the increasing tech savvy customer base, by providing 24-hour access to their accounts and allowing instant fund transfers and payments, but also have some notable drawbacks. For example, online banking cannot provide cash withdrawal services. Along with ATM limitations, online banking cannot process check or cash deposits and complex transactions. Online banking also possesses limited service offerings and more significantly lacks the human element.

Banks today are built on trusted relationships. Although online banking has many perks mainly pertaining to convenience, it takes away bankers' face-to-face interactions with customers, which is a key driver for long-term business. Human-based banking interactions will never become obsolete, and the fact remains that higher quality banking interactions tend to be facilitated through branch channels. Merely digital-only banking would not suffice, and in-store banking options via branches is still necessary to maintain more complex services and trusted relationships. This is where digital branches come to play. Digital branches are an innovative solution to simultaneously address both customers' evolving behavior towards digital and the inherent need for human interaction. Other benefits include:

1. Streamlined Operations
2. Cost Effectiveness
3. Time Efficiency and Productiveness
4. Enriched Customer Experience
5. Retention of Customers
6. Enhanced Brand Reputation
7. Speedy development of new product and services

Together, with the right consultation process and strategic planning, branches can be transformed to deliver a radically different branch experience, resolve the continued pressure on branch profitability and differentiate themselves from the increasing competition.

Traditional Branches vs. Digital Branches

Getting the right operating model within the branch is critical to a bank's success with its customer. The ideal model is likely to include several features, many of which represent fundamental shifts from the traditional model. As banks consider how to develop the branch of the future, they will need to focus on several critical areas to reinvent the physical network and create a unique customer-engagement experience.

Can human less branches work?

There is a constant debate around whether a fully automated branch with no bank employees could be the model of the future. Some believe it makes sense, as essentially the cost of running a branch without employees is thought to be a tenth of a traditional branch. In fact, a majority of bankers still view this as a risky decision. With banks building their foundations on tradition, trust and security, most bankers still believe some element of human touch is necessary to establish an emotional connection and personalized experience for their customers.[4] Pivoting too quickly away from the traditional bank branches may present risks of losing high valued or older customers, a diminished brand recognition and more.

Technology will undoubtedly play a key role in the future of branch banking. However, research analysis has indicated that there will still be a need for the human connection. A global survey of senior bank decision makers concluded that the top areas where people can add value in the bank branch are advisory (73%), sales (70%), customer services (51%), and as a universal banker (41%). In addition to incorporating emotion to the customer experience, branch staff can also bring more personalized experiences (76%) and the branch opportunity to build a trust-based relationship (62%).[5]

While today's banking customers are typically tech savvy and expect quick digital experiences, it is important that banks do not expel their current models but instead evolve them to meet the advanced demands from clients. Perhaps a hybrid model joining digital innovation and traditional relationship-based experiences will strike the winning balance to manage banks' costs and services.

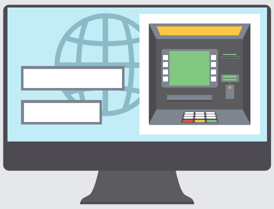
Customer service and experience is more important than ever

Gone are the days where bank branches represented a one-stop solution for all demographics and services. The need to develop more customer-centric business models has been a swelling discussion not only within banking, but across all industries. With customers being at the heart of most financial institutions, it may seem self-explanatory that banks should have a more complete understanding of their customers' profile and product set, but this not always the case.

In recent case studies, results indicate that while there is a growing awareness for the importance of customer-centric business models with the majority of banks making investments in this area, the majority of banks have taken little actions or are not fully prepared for catering their growing digital-savvy customer base. To overcome this, banks needs to develop a deeper and holistic understanding of their customers by acquiring, integrating and analyzing multiple sources of data. This customer-centric information can be used to redesign their processes from the customers' viewpoint and in turn increase customer satisfaction and loyalty.

Banks today are presented with the winning opportunity to revamp and enhance their current designs. The uproar and increasing demand for digitized processes from customers who want to manage their finance wherever and whenever, provides banks with the chance to jump on the bandwagon and demonstrate their commitment to satisfying customers' needs.

So where can banks start? How can branches be redesigned to amplify and accelerate the customer experience through digitized personalized services? What can take a bank ahead of the game?



Branch Transformation

Transforming branches to create the branch experience of the future is arguably one of the more challenging projects a bank can undertake. Branches are indeed under a great deal of pressure today to adapt to the reality of decreased foot traffic and declining transaction volume as customers increasingly migrate to digital channels. But rather than viewing this as a threat, banks should embrace this as an opportunity to further emphasize the functionality of branches as the frontline for personal engagement with customers and a vital channel in defining brand image.

True branch transformation is much broader than just changing the look and feel of banking interactions that take place today. Instead, it requires various complex strategies starting at distribution, followed by a focused model on service delivery to minimize the risk and achieve returns. In order to successfully transform, banks must study the market and have a clear, well-thought plan before diving headfirst into specific technologies.

Perhaps the most critical factor in reinventing the branch strategy is a clear understanding of customers' needs and expectations, which would allow banks to better cater to the targeted customer experience
not only by solidifying the current branch infrastructure, but also by boosting investment returns.

In reality, there is no single ideal branch experience as inevitably there will be differences in customers' needs and preferences. A "cookie-cutter" approach would not be successful; instead, tailoring branches based on the characteristics of target markets would be necessary. For example, at locations with high transaction volumes, the use of digital self-service tools can enhance customer experience while reducing transaction costs. Alternately, in high profile locations with lesser foot traffic, the use of more personalized services from advisors focused on community relationships may be more beneficial.

Table 1 on page 4 outlines some of the key factors that banks should consider while creating their branch transformation journey from what is currently offered, to the desired branch state.

Basis of Difference	Current State of Branch Channels	Desired State of Transformed Digital Branch
Customer Experience	• Long lines and waiting time for customers, given staff can only attend to a few customers at a time. • Sporadic customer volume at branches – leaving some branches extremely uneconomical or otherwise unable to accommodate customers due to considerable foot traffic. • Branch employee turnover rate makes it difficult for banks to maintain a consistent customer experience and requires constant training.	• Increased "first visit resolution" via new design concepts that will provide rich customer experiences. • Automated branch traffic analysis and management. • Intelligent routing to the appropriate back-office or contact center staff to resolve customer questions rapidly. • Lower turnover rate, due to fewer branch employees and increased use of automated machines. • Automated tellers can maintain consistent customer experience in contrast to human representatives, where variations in customer service is expected.
Tailored Branch Formats	• A large number of branches may be in standard formats providing the standard set of services and may not be consistent with targeted demographics and customer personas typically serviced in a specific branch.	• Improved branch formats and design. The branch's physical presence, from the location and size to décor, will be consistent with the bank's brand, leading to customized customer experiences in a specific location.
Access to Banking Services	• Customers can only visit during working hours.	• Banking services are available to customers at any time, providing 24-hour access. Self-service options can provide immersive experience.
Information Security	• Fewer encounters in e-security threats, as there are often more fraud protection mechanisms in place.	• Physical and information security authentications need to be designed in order to access the customer-sensitive information in the branches.
Consistent Global Services	• Branch process and formats are varying and disconnected in different markets and geographies, therefore limiting customers' ability to blank flexibly.	• Systems and processes are digitized with minimal paper usage, such that customers often travelling aboard can have greater control over their finances. Customer experiences and journeys can be created to easily onboard and bank across market locations.
Cost	• The physical location and bankers or tellers associated with a branch leads to high operating and fixed costs.	• Banks can achieve a significant reduction in both the number of staff members and the cost of content pushed through various marketing channels.

Future Branches: Trends to keep an eye on

With cutting-edge technologies constantly on the rise, there are many ways in which branch banking can be transformed to become more useful for the evolving digital customer base.

In a recent case study, bankers were asked to name the technologies that they felt would influence their branches' appearance to be more advanced and innovative. More than 56% named touch screen devices on walls, tables and tablets as having the biggest impact. This was followed by biometric identification at 42%, and beacons and interactive teller machines tied at 29%.[6]

Bluetooth Beacons

Bluetooth beacons are small hardware transmitters that can broadcast content, data and functionality to a nearby "receiver" – usually smartphones, tablets and other devices. Also known as User Geo Location detection, the beacon will detect the presence of customers close to the bank (even before they enter the branch) and trigger a message to be sent to the user's device. There are multiple ways in which beacons can be used to improve the overall personalized branch banking customer experience, including:

8. **Welcome Interaction:** When customers enter the branch, they could receive a welcome message and, optionally, a short presentation of the available services at the location from an interactive menu.
9. **Identification:** The banks' APIs and Customer Relationship Management (CRM) can be integrated, such that the beacon can match the online and offline identity of a customer to know precisely the personal profile data of the customer when they interact (E.g. relationship history, interests, customer behavior, etc.) This can help bank officers prepare their sales prompts for interacting with the customer based on their value.
10. **Surveying:** Beacons can provide a way to solicit customer opinions and service ratings when the customer visits or leaves the branch. For example, the beacon will confirm when a visit ends and the cloud platform will launch the survey module for customers to complete. This data will be quick to obtain, accurate and objective.
11. **Task Flow Management:** Based on a customer's profile and service choices, they could be assigned a specific bank officer. Additionally, if they have to wait, they will receive a message with an estimated waiting time to meet the bank officer.
12. **Customer Education:** While the customer is waiting to be served, highly relevant and short educational videos could be delivered to the customer's smartphone for viewing.
13. **Branch Analytics:** With Bluetooth beacons, banks will be able to understand the demographics of customers who use branches, the days/times they prefer for visiting, customer transaction history and other personal data. Such high-quality data can assist in optimizing the branch banking experience for customers, for example, through tailored product offerings and reward offers.
14. **Contextual Advertising:** Bluetooth beacons can also be used to broadcast advertising content outside of the branch. For example, when customers walk past a billboard or bank's digital sign, a push notification can be sent to their smartphones emphasizing product offerings, rewards or discounts discussed during their more recent visit.

Mobile Check-Ins

With the evolution of technology making the pace of our lives quicker, more convenient and simpler, banking customers also expect something similar with their day-to-day banking activities. Long lines have become a plague in every industry, including banking, often eliciting irritation or discouragement in visiting branches. Most banks today still rely on an analog system (e.g. physical lines), where customers are required to line up for an unknown duration before they are served. How can digital transform this and help customers avoid lines and a long wait time at branches?

A few industries including airline and restaurant have implemented a digital line, where customers can reserve a spot in the line through a mobile application even before reaching the location. A similar system can be created to better equip bank branches' lobby management. For example, customers can use a mobile application on their smart phones to determine the best time to visit their preferred branch for the required services. The application can also generate a QR code, which customers can present upon arrival at the branch to receive immediate services from their assigned bank officer.

Not only would these types of applications streamline check-ins, increase customer satisfaction and lower staff stress, but they could also help shift branch traffic from peak to non-peak times and underutilized branches. This practice of "load balancing" can help the bank reduce overall operational costs.

Self-Service Kiosks

Another trend that is most appealing to digitally-inclined customers is the self-service kiosk in the bank branch. Customers can be identified through various mediums including mobile check-ins and QR codes, a one-time password (OTP), or biometrics such as fingerprints or palm vein scans.

By processing standard customer requests quickly and efficiently, self-service kiosks could help ease the burden on tellers, allowing them to spend time with customers who may require more complex assistance. Self-service kiosks could be used for customer onboarding, account opening, collection of cards, bank statements, fund management, tax payments and demos or trainings on online banking.

Chatbots

A chatbot is a computer program that conducts a conversation via auditory or textual methods. To date, customers call or visit branches for a variety of reasons, many of which can be automated and do not necessarily require human call center representatives. Chatbots can be designed to recognize key pieces of information a user shares, and then provide an answer if one is set up for that specific use case.

But there are more benefits to chatbots than just providing quick responses to customers' financial questions, including:

1. **Excellent data analytic tools** – Since the technology operates by serving customers with answers based on specific needs and keywords, it can provide a holistic overview of the customers' current needs.
2. **Maintain brand consistency:** Chatbots can ensure brand consistency, tone, message and communication strategies with the customers. When using human representatives, we can always expect variations in customer service.
3. **Lower cost:** Chatbots would significantly reduce the number of staffing requirements and can also fully eliminate risks of bank employee turnover.

Virtual Reality

Perhaps the most exciting technology of them all is virtual reality (VR), an interactive experience of a bank branching environment in the real-world being simulated by computer generated perceptual information. There are already a handful of banks brainstorming or experimenting with this emerging technology, to showcase their digital bank solutions in artificial 3D environments or even to use as a marketing tool to generate PR hype. VR is indeed a hot area of interest for banks looking to jump on the branch modernization bandwagon. Banks ignoring the opportunities and innovation this technology offers could be making a mistake. Goldman Sachs research predicts VR and Augmented Reality (AR) to become an $80 billion market by 2025 – a juicy target for contenders.[7] Needless to say, banks need to act fast to take advantage of VR's potential in the industry, or else start-ups will.

Virtual Financial Advisors

Banks globally are also offering "virtual financial advisor" services to their customers. Virtual advisors offer personalized services without meeting customers face to face. Using connective technologies such as video conferencing, co-browsing, and security tools (e.g. e-signatures and voice identification), virtual advisors offer customers a trusted relationship despite the lack of physical presence.

As the rate of comfort with remote advisory increases, this model can enhance the customer experience in contrast to telephone interactions that completely remove the visual aesthetics contributing to the trust and emotional connect between customer and advisor.

"Robo" Advisors

As the market develops, the number of customers seeking dedicated financial advisors is growing at a rapid rate. Needless to say, there is a high chance that banks will begin to struggle to grow in-person advice capacity at the same pace.

Banks can overcome this without hiring additional employees and increasing costs by using "robo-advisors", fully automated advisors that constantly monitor and reevaluate portfolios based on algorithms. Robo-advisors can either function as a standalone model or a hybrid model in conjunction with a human advisor. Hybrid models are typically preferred due to the uncertainty of human-less banking. Can a fully automated advisor replicate the trust and intimacy of a human advisor? The jury is still out. But what is perhaps more certain is that a successful virtual and digitized bank model can reduce operating costs, increase customer satisfaction scores higher than firms with in-person models, and also enable strong compliance and control.[8]

Holograms

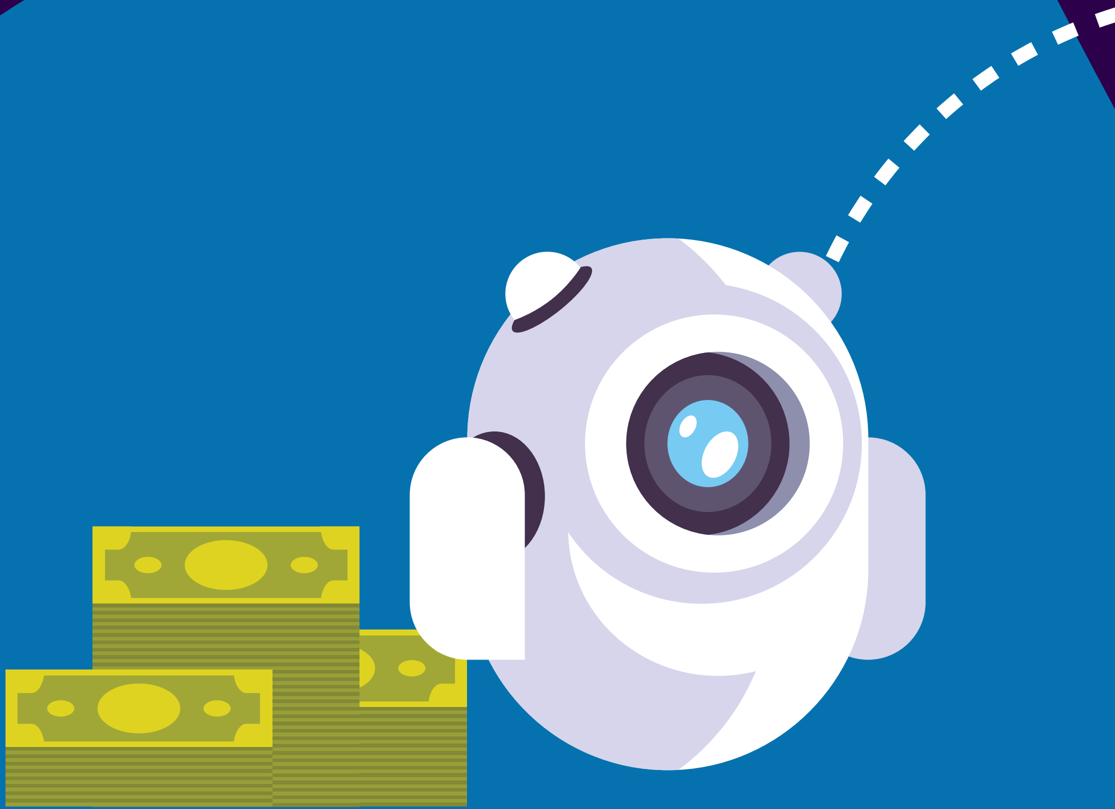
What about an Artificial Intelligence (AI)-powered avatar that guides customers and answers their questions without actually being physically there? With today's technical knowledge and sophistication, some banks are already taking steps to make this a reality.

For example, Citigroup in partnership with 8niths, has developed a virtual trading desk using Microsoft's HoloLens headset. Their concept was to use a combination of 2D and 3D presentations of data to optimize the trader's ability to extract meaning from the information quickly, accurately and efficiently. Today, a standard trader may sit behind six to eight screens of 2D information, and as such lacks prioritisation and efficiency in navigating between windows and tabs. The virtual workstation was designed to combat such pain points with a framework integrating a 2D screen space; 3D holographic docking space, keyboard, mouse, gaze, gesture and voice input. The product achieved ambient communication, allowing the trader to assimilate holistic changes in the trading environment with a glance. In addition, the model enabled the user to focus on one piece of information or section of their workstation at a time.[9]

There are endless ideas that include the use of holograms to transform customer experiences and integrate banking seamlessly into everyday interactions. These concepts are constantly evolving and some of them like Citigroup are already launched. Commonwealth Bank of Australia has developed an application that provides the listing information about a property when a customer points at a picture, helping them to make quick and accurate property decisions. In addition, Westpac bank has launched an AR application that helps customers check their cards balances, make payments and find the closes bank or ATM branches. Many are also in the process of creating holographic banking advisors that could be projected onto a physical space, such as at home, office or a branch-defined space.

Conclusion

There is no question that we have entered a new era and banks must put aside their old ways to plan for the future by leveraging Digital technologies. Digitsation of branches is a critical element of this strategy. Whilst redesigning the branches, it is important to provide enhanced customer experiences in ways that will continue to maintain trust through human relationships. There are several technologies that can be considered whilst redesigning the optimum experience in a Branch depending on customer demographics and the customer needs that the Branch is catering for.



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About Capgemini

A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms.

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