BAI Banking Strategies

EXECUTIVE REPORTS

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BUILDING THE BRANCH OF THE FUTURE

IN THIS ISSUE

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Reinventing the Branch for Lower Cost

For traditional branch networks, the writing is on the wall: a continuing migration of customer transactions to electronic channels will absolutely require banks to bring down their branch costs while coming up with alternative designs for the Branch of the Future. Let the experimentation begin.

In this *BAI Banking Strategies Executive Report* entitled "Building the Branch of the Future," we look at different ways banks are approaching the issues of expense reduction and future branch redesign. We begin with an essay by branch design consultant and architect David Faulkner, who leads us through the early attempts by financial institutions to reinvent the branch, including efforts to replicate the experiences customers enjoy in coffee bars and airport lounges. As he points out, customers may like these new formats, but at what cost to banks?

"We need to ask: how does all this relate to banking? Does that cup of organic, fair trade coffee perk up your financial life? Why spend $20 million on wall-to-wall touchscreens and other technology that just replicate what customers can get, more conveniently, on their PC, tablet or smartphone?"

Rather than placing large bets on a comprehensive makeover, Faulkner recommends, instead, that banks utilize "pop-up," or temporary, branches that enable them to "test and learn" at a reasonable cost. "Staffed with marketing specialists versed in the art of collecting customer data, pop-ups offer a close look at consumer behavior, reaction and preference," he says, describing experiments in pop-up branches conducted by BNP Paribus in Belgium, Lloyds Bank in the UK and Frost Bank and Alamo Federal Credit Union in Texas.

Contributing writer Chuck Green next tackles the topic of in-branch video tellers, which are machines designed to lower costs in the branch while maintaining sufficient levels of personal service for customers. As Green shows in his reporting, balancing these two objectives can be tricky. "It can be a fool's errand to reduce costs if customers don't like the experience and go elsewhere," warns Ed O'Brien, director of the Banking Channels Advisory Service at Mercator Advisory Group.

For that reason, banks that deploy video tellers take the time to guide customers through the use of the unfamiliar technology. "We carefully concierge the process; a teller shows customers how to use (the machine), and how quick and easy it is to operate," says David Kreiman, executive vice president of Glenview State Bank in Glenview, Ill.

Another strategy increasingly utilized by banks to drive down their branch operating costs is the sale/leaseback of those branches. Contributing writer Robert Stowe England describes how banks such as BMO Harris, Bank of America and Citibank are selling branches to investors and then leasing back the offices for periods of 10 to 20 years. These transactions enable banks to recover capital while still retaining the use of the buildings.

"If people have real estate tied up on their balance sheet and that is not their primary business, it can make sense to offload that and free up some capital so they can do something else with it," says Jonathan Hipp, president and chief executive officer of Reston, Va.-based Calkain Companies Inc.

Given current industry trends, we can expect more such strategies from banks to reduce the costs of their branch networks. While there seems no doubt that the branch, in some form, will remain with us for many years to come, the branch of the future is likely to constitute a less onerous cost burden than it does today. ■

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Workforce Management Technology as the Secret to Service Excellence

To differentiate themselves in a highly competitive marketplace, banks need a service excellence plan that includes workforce management technology to help optimize and integrate their labor processes.

By Malysa O'Connor, Industry Director, Financial Services, Kronos Incorporated

At its core, banking is a service business. Every institution follows the same regulations and standards and offers similar services. The most effective way for a financial institution to stand out from the competition is through the service and experience it delivers to customers. This is why service excellence in banking today is paramount.

Industry research bears this out. A 2014 survey conducted by Ernst & Young revealed that although confidence in the banking industry is returning, financial institutions must earn the very highest level of customer trust if they are to retain their customers, increase business, and generate true customer loyalty. Significantly, of the respondents who said they had "complete trust" in their primary financial services provider, more than half (56 percent) said it was because of "the way I am treated."

Branch locations, mobile technology, product offerings, omnichannel experience, convenience, better communication — all these things matter to bank customers. But they don't impact the way customers are treated. That is delivered by people.

It's clear that investing in the customer experience pays off. 2014 research published by the Harvard Business Review determined that it's a major driver of future revenue. In fact, the researchers found that customers of transaction-based companies who had the best past experiences spent 140 percent more compared to those who had the poorest past experience; that's two-and-a-half times the annual revenue increase per customer.

What Drives the Customer Experience?

The banking industry has invested in mobile and online banking, reduced fees, and more ATMs – all of which are important to customer satisfaction. However, when there's a problem or if a transaction is highly important, customers want to talk to an individual. That's why it's critical to have a consistent approach to service across all channels, whether it's the call center, online, or in the branch.

Achieving this level of consistency means more than just having the right people across those channels at the right place and time. These employees need to be engaged, empowered, and incentivized to deliver on service expectations.

The Three Steps to Service Excellence

Financial Services isn't alone in how employee staffing and scheduling impacts service excellence, but they are lagging behind. Looking to other industries for best practices in enterprise scheduling demonstrates the significant opportunity that exists for banks to optimize their employees to drive service excellence.

Achieving this is a three-step process:

1. **Planning.** Identify and budget for ideal service goals, forecast results, and create employee schedules to achieve them.

2. **Execution.** Measure and analyze the actual results of the plan.

3. **Continuous improvement.** Refine and optimize the process.

Financial institutions that follow these steps are well on their way to achieving service excellence. However, without detailed visibility into the execution phase to drive measurement and analysis, there is a critical gap between what an institution plans to have happen and what they need to do to improve.

Bridging the Continuous Improvement Gap with Workforce Management Technology

Clearly, strong planning, budgeting, forecasting, and scheduling are critical to service success. But if a financial institution isn't sure what's happening in their operations and why, they can't continuously improve. And they certainly can't adjust in the moment to address issues before or as they're happening, or alter their plans to better fit organizational needs and/or budget.

Automated workforce management technology can help bridge the gap between planning, execution, and analysis and add value throughout each stage.

Workforce management technology provides insight into labor data such as unplanned absences and paid time off that enables better operational control for planning, managing, and ultimately optimizing service excellence through a highly engaged workforce. When planning and execution are in balance, bank leadership is better able to analyze the actual data against their plan to drive continuous improvement, leading to more informed business decisions and ever-higher levels of service excellence.

The Importance of Optimizing the Customer Experience Across All Touch Points

Today's bank customers are interacting with the organization via multiple channels, sometimes simultaneously. Meeting the service expectations of this new hyperconnected customer profile requires an omnichannel strategy that incorporates and optimizes the "people elements" of service delivery.

The challenge is twofold: Banks must deliver a quality customer experience and optimize their resources across these multiple channels. This is no small feat, considering that currently, operations and people management are often siloed across these channels. They may not all be speaking the same service language, leading to an inconsistent, frustrating, and even negative customer experience.

In today's – and tomorrow's – competitive banking environment, having instant visibility into who is working, not working, available to work, performing well, underperforming, etc., will be critical to maximizing resource utilization and optimizing service excellence.

Conclusion

To differentiate a financial institution and gain a stronger advantage in a highly competitive marketplace, it is essential for banks to have a service excellence plan that includes workforce management technology to help optimize and integrate their labor processes. Integrated, automated solutions can help banks break out of employee management silos for higher visibility into labor data, which may then be analyzed to support continuous service improvement for ever-increasing levels of success. ■

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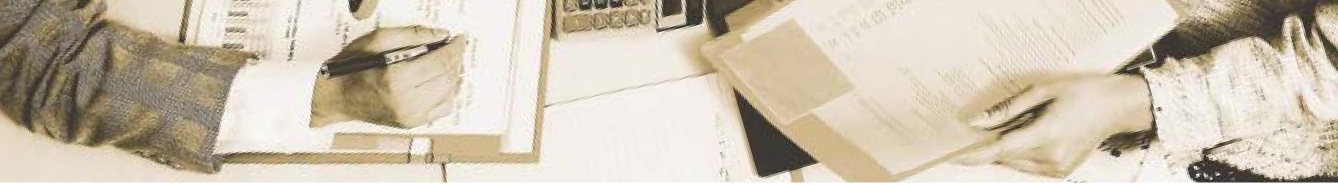
Learning from Pop-Up Branches

As banks struggle to reinvent the branch for the 21st century, they might want to explore the pop-up concept as a fast way to test-and-learn.

By David Faulkner

When it comes to banking, the Internet has changed everything. Today, according to a recent Nielsen survey, 82% of U.S. bank customers "have entered the digital arena." And that percentage is only going to rise; it's already as high as 90% in Germany. What does that mean for bank branches?

Those tired, old and empty branch lobbies will either go the way of the video store, or they can make themselves part of the lives of their customers, transform themselves from a cost center into a community center and become a destination in their own right. For branch banks to remain relevant in the face of change, they'll have to reimagine their relationship with customers.



Library Experience

Walk into your local branch bank. Chances are it's quieter than a library. Emptier than a museum. And about as lively as a mausoleum. It's no secret that branches are emptying out. As more customers trust their banking to anonymous, online transactions on the Internet, they are becoming less relevant to customers. Not coincidently, they are becoming an ever greater drain on bank profits.

> *Those tired, old and empty branch lobbies will either go the way of the video store, or they can make themselves part of the lives of their customers . . .*

The kneejerk response to this trend is to downsize. Banks are replacing their oversized, unprofitable branches with sparsely staffed mini-branches in thinned out networks. Instead of re-thinking what the bank branch could be, they keep the same experience, but offer less of it. Yes, a smaller footprint reduces the initial capital investment, along with rent, headcount and operating costs. But, it also downgrades the customer experience. These smaller spaces feel crowded during peak times. Privacy is diminished. And along with fewer branch locations, customers are ill served by less staff and fewer knowledgeable bank specialists.

Some banks and financial services companies are bucking this trend. Already, we are seeing some radical ideas tested in the marketplace. Perhaps you've seen a coffee bar in a bank or read about the Virgin Money Lounge, where customers are treated to a club-like experience. Like an airport lounge for first-class members, these facilities offer a respite, a place where even low-balance checking account customers can relax, enjoy a cup of coffee or tea, connect to wifi, and do a little online banking. Poland's mBank has invested $19 million to reconfigure their branch banks, moving them into shopping malls, where customers experience free-standing kiosks and technology heavy "light branches," replete with wall-sized flat panel touchscreen display systems.

Even the local credit union is reinventing itself. In Vancouver, Canada, 72-year-old North Shore Credit Union got a makeover, renaming itself as Blue Shore Financial, and rolling out a trademarked "Financial Spa" concept. Sadly, there are no massages but Blue Shores' financial advisors can work out the kinks in their customers' financial lives and do it in a soothing environment.

Still, we need to ask: how does all this relate to banking? Does that cup of organic, fair trade coffee perk up your financial life? A leisurely visit

to a Financial Spa or Virgin Lounge may strike a chord with the affluent but will it resonate with the rest of us? Why spend $20 million on wall-to-wall touchscreens and other technology that just replicate what customers can get, more conveniently, on their PC, tablet or smartphone?

> *Why spend $20 million on wall-to-wall touchscreens and other technology that just replicate what customers can get, more conveniently, on their PC, tablet or smartphone?*

Looking through the cost/benefit lens, as any responsible banker would, it's important to ask: do these concepts deliver a fundamentally better product, service or experience? Coffee, for example, doesn't leverage any capabilities or expertise that banks have. All of the options we've explored above are expensive and time consuming. The transformation at Blue Shores Financial took a decade. Even on a fast track, the redesign of a typical bank branch can take two to three years to go from initial idea to ribbon cutting. That's a lot to invest in an untested idea.

User-Centered Design

Uber, Ikea, and Starbucks all created something fundamentally different that consumers loved by transforming products and services for which customer expectations were extremely low. Just as importantly, these companies changed quality and execution standards in a way that directly benefited consumers at the same time they created significant daylight between themselves and their competitors.

Today there is an opportunity for banks to do something just as ground breaking, do it faster and at less cost, and do it in a way that lets them learn from their experiments as they go forward. Call it user-first, customer-centric, or user-centered design, but there's a lot to learn from the approach coming out of new startups in Silicon Valley. Championing buzz phrases like "design-thinking," "the customer journey" and "minimal viable product," these companies race to launch a product into the wild, gather feedback, iterate and launch again. It's a valid approach, especially for forward-thinking banks that want to be seen as innovators.

Pop-up shops might be new to banking, but they are a tried-and-true development engine in the retail industry. For 30 years, pop-ups have provided retailers with a flexible, low-cost and highly focused method of testing new concepts or products and gathering customer feedback quickly prior to launch. Appearing in unexpected locations, and for brief durations, pop-ups do a great job of positioning brands as forward thinking, adventurous and entertaining. Even better, pop-ups function as a living lab. Staffed with marketing specialists versed in the art of collecting customer data, pop-ups offer a close look at consumer behavior, reaction and preference.

> *Pop-up shops might be new to banking, but they are a tried-and-true development engine in the retail industry.*

Brands that seek to make an impression on millennial customers are using pop-ups to offer access to the coolest, most cutting-edge technologies and cultural trends. In Belgium, BNP Paribus' Hello Bank pop-up lets passersby try out Oculus Rift VR headsets, print 3D models of themselves, mingle with local celebrities and sample healthy snacks. The goal is total immersion in a hip, high tech lifestyle that also happens to include digital banking.

Lloyd Bank's Tea Garden popped up in malls just before Christmas. For 11 days, Lloyds provided free cups of tea and a chance to take a break from the holiday shopping madness. Staffed by employees decked out in aprons, the tea garden provided an opportunity to cement brand loyalty and a chance for staffers to show that they're as friendly as they are knowledgeable about banking.

With less cost and less risk, pop-ups offer banks a unique opportunity to try out new ideas. They offer the opportunity to fail fast, outside of the regulatory constraints placed on branch operations, and learn fast, in environments that make consumers more receptive to new ideas. Pop-ups can literally take it to the streets. Frost Bank of San Antonio, Tex., went mobile with a pop-up van designed to help consumers to switch to their bank. Meanwhile, another Texas bank, Alamo Federal Credit Union, brings the bank to you, with a banker driving an SUV that delivers mobile concierge services. The bank comes to the customer with just about everything but cash, including car loan applications, mortgage services and face-to-face banking advice.

When you put wheels on your living lab, some interesting things happen. Because they're not tethered to a single location, your concept tests get a broader audience. When banks on wheels show up in unexpected locations, like amongst the food trucks that line an urban park at lunchtime, they capture attention when and where your consumers are. And because the mobile bank delivers a person-to-person experience, you can deliver an analog of the best of banking's in-branch experience. That person-to-person experience may turn out to be the strongest defense of all when it comes to staving off threats from the Googles and Apples of the banking world.

For banks that seek to brand themselves as innovative, responsive and relevant, pop-ups provide a perfect showcase, as well as a means to reach millennials, most of whom wouldn't be caught dead in a bank. And because they are mobile, pop ups can target specific demographics, with concepts fine-tuned for a consumer base in the Bronx or Beverly Hills.

As banks seek to make their traditional branch relevant, they must look beyond the branch. Mobile brand portals, living labs, and pop-ups offer banks an opportunity to connect with customers in more powerful, dynamic ways that encourage engagement, build loyalty and engender trust. ■

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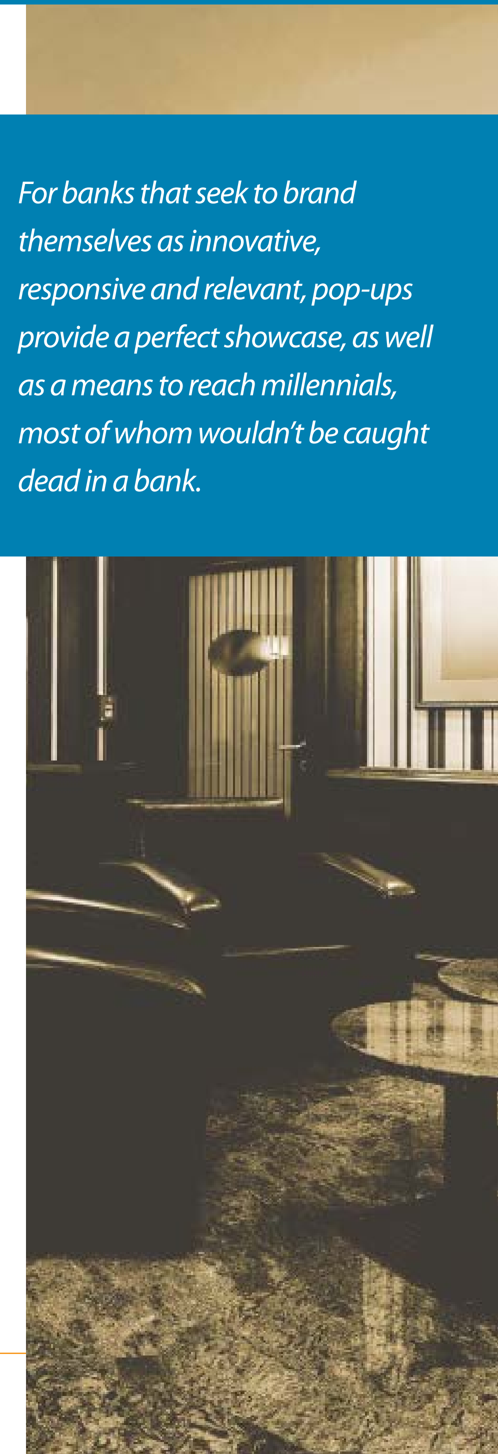

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Revitalizing the Banking Customer Experience

Banks can revitalize their customer experience by providing an omnichannel experience, enhancing the in-branch experience and creating a neighborhood feel.

By Sarah Wallace, Content Marketing Manager, TimeTrade

Today, leading banks are realizing that the key to providing a superior customer experience is personalization, as 72% of retail bank executives feel providing a personalized bank experience is important.

Leading banks understand providing a more personalized customer experience increases their bottom line. They realize that the knowledge and expertise bank employees can offer during an in-person interaction leads to a high-value banking experience and helps to acquire and retain customers.

However, banks today find challenges in trying to provide a more personalized service. Online banking has resulted in customers visiting branches less frequently and customers are under the impression they will have to wait in line at the branch. These factors contribute to the fact that the personal relationships that drive business for banks are fading and banks need to revitalize these relationships in order to enhance the overall customer experience. The following are ways that banks can revitalize their customer experience:

Provide an Omnichannel Experience

A hot customer experience buzzword, "omnichannel" can be defined as: providing a consistent customer experience across channels such as social media, internet, email, voice, mobile and text and call center. Customers choose different channels for different types of transactions based on their individual preferences. Banks must provide a consistent experience across all channels in order to meet the increasingly complex needs of banking customers.

Offerings such as self-service appointment scheduling help banks unify service delivery across all channels to help convert digital inquiries to high value, one-on-one interaction while optimizing call center and in-branch operations. Call centers handle thousands of calls per day and can keep an entire team of scheduling coordinators busy trying to match clients with the right banking resource. Appointment scheduling automates the process by empowering call center staff to instantly locate and book customer appointments with the right banking professional, saving time and money and increasing call center efficiency, as well as provides a convenient self-service option directly to the customer. Leading banks will provide a superior customer experience across the whole customer journey, not just certain channels.

Enhance the In-Branch Experience

Once customers go into a branch, banks must still provide a superior customer experience. To avoid customers having to wait in line, bank associates and managers must use tools to efficiently manage lobby flow. Bank employees can collaborate via tablets or smartphones to manage both scheduled and walk-in customers to ensure they receive prompt service with the right banking specialist.

Many banks are also providing a cafe-style environment by serving coffee, providing free

Wi-Fi and offering a lounge-type lobby. The intention is to make banking customers feel comfortable so they are not intimidated while making financial decisions.

Leading banks are using analytic tools to give bank managers insight into the banking customer's end-to-end experience. Managers can use analytic tools to monitor performance and view drill-drown prescriptive analytics. Banks can capture customer feedback through a customer satisfaction survey and evaluate the customer's interaction with the banking specialist.

Create the New Neighborhood Feel

Customers' expectations for personal attention and convenience are the same – whether they are community or big bank customers. Banks of all sizes are using the exact same technology to answer two very different challenges as they redefine what a "neighborhood feel" really is.

Big banks have the technology, but often miss a personal connection with customers. How can national banks deliver that level of attention to huge volumes of customers in a cost-effective, easy-to-manage system across thousands of branches? On the flip side, community banks have to translate the high-touch customer service before customers even step foot into a branch. How can they replicate that advantage on mobile and online to compete with the resources of national banks?

Banks cannot replace person-to-person service with technology. Instead, technology should enable customers to get the personal attention they crave. ■

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Video Tellers for Lower Cost Branches

Video tellers in branches can help banks drive down costs while maintaining good service – but they're not for all customers.

By Chuck Green

In an age in which customers are increasingly migrating to electronic channels for basic transactions, banks face the challenge of lowering their branch costs while still maintaining the level of service for more complicated transactions or issues that customers have come to expect. One increasingly popular solution to this dilemma is the video teller, or interactive teller machine (ITM).

A few years back, Brookfield, Wisc.-based North Shore Bank was experiencing an annual decline in its branch teller transaction volume of between 5% and 7%, according to Susan Doyle, senior vice president of Retail Banking. Consequently, the bank began examining the video teller technology, which both enables customers to speak with a live remote teller and provides the teller with the capability of conducting the same transactions as would typically be done inside the branch.

Since installing its first unit in December 2013, North Shore has experienced an annual 27% increase in average volume of video transactions, says Doyle, noting that the bank now operates ITMs at seven of its 46 branch locations. Recognizing that some customers experience difficulties in using the machines, North Shore staff assist customers during branch operating hours for the first 35 to 40 days after introducing an ITM, she says.

"Apprehension is human nature; we help customers overcome it. Any technology is only as good as customer preferences; they choose when and where to perform banking transactions," Doyle says.

While video teller manufacturer NCR Corp. estimates that it costs banks about $2 for each ITM transaction compared to $4 for traditional tellers, banks shouldn't use the machines merely to help tamp down expenses, warns Ed O'Brien, director of the Banking Channels Advisory Service at Mercator Advisory Group. "It can be a fool's errand to reduce costs if customers don't like the experience and go elsewhere."

Concierge the Process

Whether customers accept video tellers or not largely hinges on whether they "appreciate an enhanced experience rather than one that's been in place for decades," says David Kreiman, executive vice president of Glenview State Bank in Glenview, Ill. "We carefully concierge the process; a teller shows customers how to use (the machine), and how quick and easy it is to operate."

With this kind of instruction, "customer acceptance will go way up," Kreiman says, noting that Glenview State started using ITMs about two years ago and now has 12 at all seven of its branches, with three additional units about to be installed. The bank reports 111,000 transactions between April 2013 and June 2015, with nearly 30% of those occurring before the branch opens its doors in the morning.

Meantime, Comerica found that ITMs have helped customers complete 90% "of the typical transactions that can be performed in person with a teller, but during extended hours," says Mike Aust, executive director, Retail Banking. "We have very tech savvy-customers who recognize the convenience the machine adds to their experience and are adapting to it well. It's fair to say that the number and percentage of transactions are growing."

Comerica installed ITMs at each of its branches in Auburn Hills, Mich., Ontario, Calif., and Phoenix, Ariz., and plans to place another one in its Dallas, Tex., corporate headquarters by the end of the year, Aust says.

All of the banks that have been utilizing video tellers recognize that some customers are uneasy with the technology, especially when dealing with sensitive information like their finances. Kreiman at Glenview State estimates that 90% to 95% of customers "love it," while around 5% to 10% "don't want anything to do with new technology" and continue to use tubes or drive up drawers. "Particularly among some demographics, there are those who aren't as tech savvy, or might be older, and would rather communicate, in person, with a teller," says Mercator's O'Brien.

On the other hand, customers who work long hours welcome a technology that enable them to address their banking needs, no matter how late they're stuck at the office, says Tara Burke, a spokesperson for Bank of America, headquartered in Charlotte, N.C. BofA currently operates 543 video tellers in 22 urban areas around the country. These sites include traditional branches, express branches and some remote non-branch locations, Burke adds.

"This is yet another example of how customers continue to seek ways to bank on their own schedule," Burke says, adding that BoA will continue to add the devices in some of its existing markets as well as using them to expand into new areas. NCR estimates the potential market for video teller technology at $4 billion, reporting that more than 130 financial institutions in the U.S. have started using its particular product since introducing it in early 2013.

Inevitably, however, there have been glitches, particularly in the software. Kreiman says that Glenview State piloted the technology on only a few machines at first "because we needed to hit this thing with a hammer for a long period to make sure things would work long term. We had some hardware and software issues with a vendor that we worked through and took a long time before we expanded our use of them."

"We probably went six to 12 months beyond the time period where we expected to decide one way or another because we were so sure that this was the right use of technology for both the bank and customers," Kreiman adds. "We were patient in some things that took too long to fix, but eventually those things were ironed out."

"There might be a glitch, here and there, but our video tellers are trained to be there to assist customers," says North Shore's Doyle, relating one client experience: "We couldn't print a statement from a customer's checking account on a Sunday, so the video teller offered to print it and send it in an email, and that was fine with the customer. If we can't do something, we find a way."

"As you install and test this technology, you can't overstate the importance of making sure you have the right people experience within your banking center," says Comerica's Aust. Along those lines, Comerica studied various staffing models, the profiles and competencies of its staff, as well as training programs, to ensure that its employees "have the tech savvy to explain the benefits of the technology to customers." ■

Mr. Green is a contributing writer to BAI Banking Strategies based in Chicago.

Banking on the Future by Enhancing the Customer Experience

Financial institutions need to leverage digital technologies, including mobile, to create a competitive advantage.

By Darren Collins, Financial Services & Insurance Director, Lexmark Enterprise Software Group

With increased competition and the rise of the digital economy, banks today are finding it increasingly difficult to acquire new customers, retain existing customers and deliver innovative products and services.

The millennial generation, for example, wants faster, more convenient access to banking services using the mobile devices that they love. Many traditional banks just aren't serving this growing need, and their competitors – the so-called "challenger banks" – are already using the latest applications and technologies to capture an increasing market share.

These new market entrants are different from their predecessors because they have been built from the ground up with the current technology landscape in mind.

Looking Back

Until recently, to conduct any type of banking business required a visit to a bricks-and-mortar location. One channel, one approach, replete with wet ink and many paper documents, is how traditional banking business has been done.

With the proliferation of the internet, PCs, tablets and smartphones, branch banking is facing competition like never before. Technology and the need for convenience are driving an evolution in the banking industry.

According to recent research by UK-based pollster YouGov, there has already been a significant move online, with 78% of people now using online banking at least once a month. In addition, more than half of respondents said that they can do the vast majority of their banking either by phone or online and that their use of these channels will continue to grow.

With so many similar banking products and services available in the market, banks should be asking themselves what they can do to differentiate their offerings and stay ahead of the competition. And as well as having to compete with their bricks-and-mortar rivals, banks face new entrants like Apple Pay and others, who have been quick to enter the market with minimal fiduciary compliance accountability.

Banking on the Future

Many banks make the mistake of investing significant capital in modernizing their branch network, thinking that consumer footfall will rebound due to a new exterior look, new signage or even a change in furniture! But to obtain a competitive edge, organizations must be more strategic, more innovative and be able to execute rapidly. And if they can't deliver value, speed and an outstanding customer engagement experience, then their customers will go elsewhere.

Although the future of branch banking may be uncertain for some, there are forward-thinking financial institutions that are strategically planning – and acting – on how best to serve their existing and future customers. Some are even asking if they should even be focusing on branches in a world where mobile access is increasingly universal and where customers expect a superior digital experience.

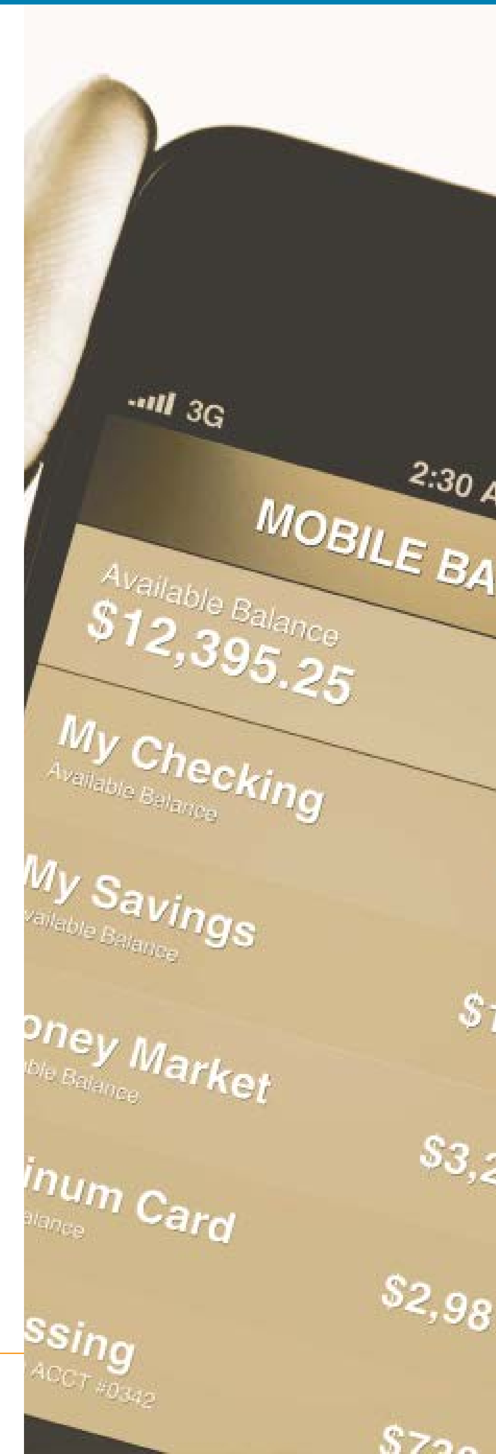
In fact, in a recent report, PwC suggests that by 2025 New Zealand may not need any high-street bank presence at all. The report, called *The Future Shape of Banking*, says that as barriers to entry for new financial services players continue to decline, the traditional business models of today's banks will continue to be challenged.

Until now, only around 2% of customers per year have changed their banks, primarily because there hasn't been a real reason to change – one bank is very much like any other. However, with new entrants and their innovative ways of working, this rate is set to rise dramatically.

So, the future of branch banking is heavily reliant on adopting innovative strategies that combine an understanding of customer behavior, changing market demographics, financial product relevance and the capabilities of technology. It is predicted that by 2020 more people will be banking on their mobile phones than have ever banked before – and that's just four years away!

Enhancing the Customer Experience

Clever ad campaigns, better interest rates and more branch locations are no longer as valuable to the connected consumer. The differentiator will be how well banks and other retail financial institutions anticipate, innovate and serve the needs of their existing and future customers, wherever they may be and however they choose to communicate.



It would seem that customers are bringing expectations to their banking activities that have been fostered by their engagement with the wider digital world, and particularly with online retailers. They expect to interact with their bank on their own terms, whether using their PC, tablet, or mobile phone, and using web, email, apps, SMS and social media channels. They expect the bank's marketing and customer service offerings to be tailored to these modes of interaction. By interacting successfully with customers via all of these channels in a consistent way, banks will generate enhanced customer satisfaction, which will have a positive, profitable effect on customer acquisition and retention.

Is Mobile Enough?

How can a bank enhance its customer's branch experience in the light of these changes? Just having a mobile banking platform is not enough to support all of a connected customer's needs. Is the mobile banking platform agile enough to inter-work with traditional customer modes of engagement? Integration with existing channels is critically important.

Many traditional banks struggle to achieve this due to their often disparate, antiquated and inflexible back-office systems which constrain and dictate the way new services are implemented. New online offerings have to be grafted onto old record keeping systems that were never designed to accommodate them, which is both expensive and can result in a slow, unappealing and inflexible customer experience.

Whether it's opening a new account, paying a bill or applying for a loan, it is that initial, information-intensive customer interaction where lifetime brand loyalty begins. Customers want to interact on their terms, on their device, from anywhere and at any time they want. Fail to offer that and they will take their business elsewhere.

The Road Ahead

As consumers become more comfortable conducting their lives on their mobile device, they will expect their bank's service offerings to adapt to meet those changing expectations. But it's not just about rolling out new mobile services; mobile affects the ways bank employees at all levels do their jobs, and presents challenges for IT departments that need, for example, to secure sensitive customer data on unmanaged personal devices.

To meet the increasingly complex needs of their customers, banks will need to make large-scale changes in how they run their businesses and interact with their customers. In order to achieve this goal they will need to invest heavily in customer service, seek out greater operational innovation and adopt new technology, while at the same time attempting to deal with a variety of legacy and regulatory challenges.

To stay ahead of the competition, banks should be looking for ways to achieve all of these objectives at low cost, with rapid time to market and be able to modify their underlying systems to react to ever-changing market trends. It may sound like a tall order, but for those who embrace this new era of change and fight to stay relevant, the rewards will be substantial. ■

Mr. Collins is financial services & insurance director for Lexmark Enterprise Sofware Group, a division of Lexington, Kentucky-based Lexmark International Inc.

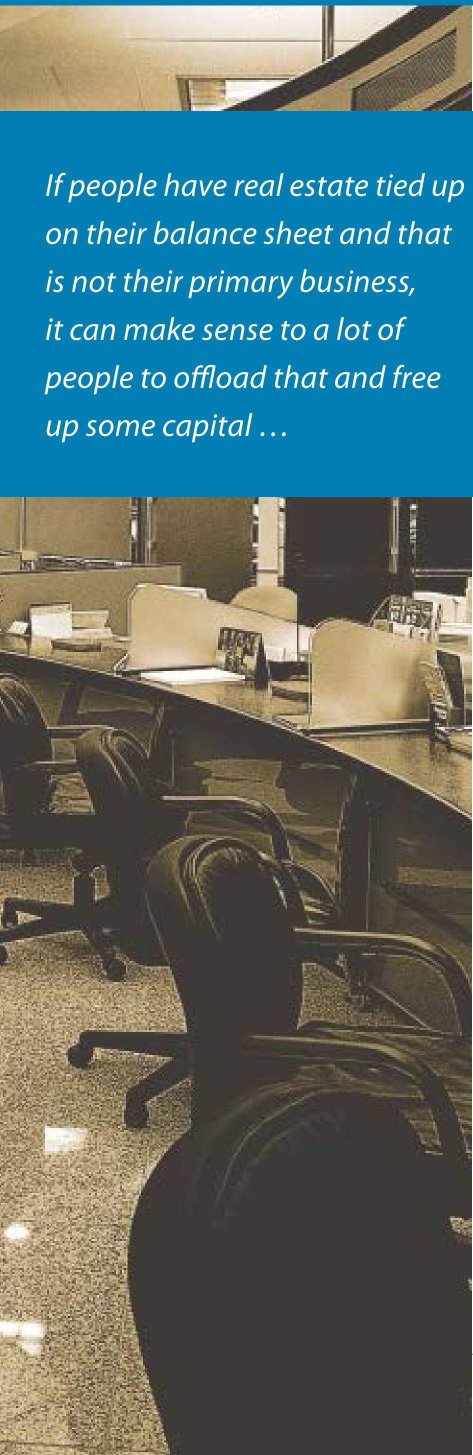
Freeing up Capital with Branch Sale-Leasebacks

In an era when cost control is critical, banks are increasingly turning to sale/leaseback deals for their branches to free up capital and reduce operational costs.

By Robert Stowe England

In April, BMO Harris Bank sold 11 of its retail banking branches in the Phoenix area for $25 million to Corporate Partners Capital Group Inc. of Los Angeles and leased them back. The bank is no stranger to such deals. BMO Harris, the U.S. arm of Bank of Montreal, has already sold and leased back 20% of its 600 U.S. branches, according to a company source. In Canada, the parent company has nearly 80% of its 900 branches leased back.

The sale-leaseback deals this year at BMO Harris, as well as at Bank of America Corp., Citicorp and elsewhere are pushing the pace of such deals "significantly higher" in the banking sector, according to Joe Brady, managing director and chairman of the Banking Industry Group at Chicago-based Jones Lang LaSalle Incorporated (JLL), a commercial real estate services and investment management firm.



If people have real estate tied up on their balance sheet and that is not their primary business, it can make sense to a lot of people to offload that and free up some capital …

Citibank, for example, reports that last year it sold and leased back 90 branches in California and another 18 branches this year in Chicago and South Florida. "Citibank considers sale-leaseback transactions when appropriate opportunities arise, typically to capitalize on the high demand for well-situated rental sites," says Andrew Brent, director of consumer public affairs. Citibank leases the majority of its branches, he adds.

The sale and leaseback of bank branches can be very compelling for banks, enabling them to raise cash while scaling back operational costs and reducing depreciation. In return, banks can sign 10-year to 20-year leases, renewable for up to 40 years, giving them control over the property. "If you look at what drives sale-leaseback deals, it's a universal concept, which has nothing specifically to do with banks," says Jonathan Hipp, president and chief executive officer of Calkain Companies Inc., a Reston, Va., commercial real estate broker specializing in single-tenant, net lease properties.

"If people have real estate tied up on their balance sheet and that is not their primary business, it can make sense to offload that and free up some capital so they can do something else with it," Hipp says. For banks, that capital can be reallocated to anything from opening more branches to investing in new technology.

Lowering Occupancy Run Rate

For at least 15 years banks have been doing sale-leaseback transactions, sometimes of entire retail bank branch networks. Most of the activity has been occurring among large national and regional banks, with occasional deals involving community banks. In 2014, for example, there were 114 sale-leaseback deals involving bank branches with a transaction volume of $588 million, representing a 30% increase in volume over 2013, according to JLL. The first quarter of 2015 saw 15 such deals, with a transaction volume of $39 million.

"In the past, large cap nationals have been comfortable and conversant going to the capital markets with sale-leasebacks," says Brady. "What we're seeing this year is the mid-cap regionals looking at the sale-leaseback avenue for flexibility, liquidity and capital raising," he adds. JLL expects deal volume this year to be as high or higher than last year.

What's behind the trend driving banks to sale and lease back their branches? "First and foremost, changing consumer behavior," Brady says, referring to the fact that people are moving increasingly to ATMs, the Web and mobile devices to conduct their banking transactions in preference to the traditional visit to the local branch. In a conference call April 14 to discuss first quarter earnings, JPMorgan Chase's chairman and CEO Jamie Dimon pointed out that it cost the bank 60 cents if a customer goes to a teller to make a deposit, compared to only 4 cents if the deposit is made using a mobile app, meaning that teller deposit transactions cost 8 times those of mobile apps.

Complying with an onslaught of regulations is also driving up the cost of retail banking and pressures banks to find ways to cut costs. "Lowering the occupancy run rate has been a key area all of our banking clients are focused on," Brady says. As a result, even as banks strive to keep their retail branch footprint mostly intact, they want to reduce the size of branches to accommodate the reduction in foot traffic, says Von "Buck" Moody, who is senior manager at Dallas-based Ryan LLC, a corporate and commercial property consultant.

Lowering the occupancy run rate has been a key area all of our banking clients are focused on.

Before 2008, the typical branch size in the southeastern U.S. was roughly 3,200 to 4,200 square feet, housing eight to 10 employees, according to Moody, who is a former senior vice president and senior portfolio manager for Wells Fargo. Today, when banks design new branches, they typically plan for only about 2,500 square feet and four or five employees, Moody says. One way banks can downsize to meet the lower demand for retail space is to lease only a portion of the space when they do a sale-leaseback transaction, he adds.

The supply/demand imbalance is extraordinary. There's a very large block of money chasing a few deals.

Meanwhile, demand by investors who would like to buy and lease back bank branches is vastly outstripping the supply of deals as investors remain keen on finding high yielding investments in an environment of very low interest rates. "The supply/demand imbalance is extraordinary. There's a very large block of money chasing a few deals," Brady says, estimating that there is overall $8 in credit available from investors pursuing every $1 in sale-and-leaseback deals out there. The credit supply is coming from insurance companies, pensions and sovereign wealth funds, he says.

The excess demand has also driven down the cap rate for deals while doing nothing to slacken the demand. The cap rate, when multiplied by the value of the transaction, determines the rent the seller pays and, of course, the return on the investment for the buyer. Cap rates, as high as 10% in 2001, have moved to under 5% in some markets, according Calkain. A cap rate is a critical element in any deal. If, for example, a bank sells a branch for $1 million for leaseback with a cap rate of 5%, it would mean that the bank would pay 5% of $1 million, or $50,000, for its annual rent, leaving investors with a 5% return.

Banks are also able to get a lower cap rate in some regions, particularly in the West and especially in California, according to Brady. Further, banks can obtain a cap rate 50 to 75 basis points lower by extending the lease from 10 to 15 years, which also gives investors a longer lock on their investment return. In California, banks can get cap rates of 4.75 to 5.75 for 15-year leases, according to JLL, while in New York and the Northeast the cap rate can be as much as 50 basis points higher.

"There's plenty of capital for deals. The key challenge for all banks that we work with is to make sure they understand the purpose or mission of why they are engaging – it has to be tied to a specific strategy," Brady says. ■

Mr. England is a contributing writer to BAI Banking Strategies and the author of Black Box Casino: How Wall Street's Risky Shadow Banking Crashed Global Finance.

Six Strategies to Consider on Your Branch Transformation Journey

Branch transformation requires addressing six strategies: business model and management processes, marketing and sales, human resources, distribution/layout, omnichannel and customer engagement.

By Chris Zaske, Global Vice President, Strategic Operations, Verint Systems

Many banks are addressing the need to transform their branches by creating new formats and layouts with the latest digital bells and whistles, with some looking not at all like traditional banking spaces. JPMorgan Chase is openly sharing their efforts to converge their branch channel with innovative digital technology. Umpqua Bank, long recognized for offering free coffee and comfortable sitting areas in its stores (what it calls its branches), opened a flagship location almost two years ago featuring digital technology, including interactive wall screens, tablets, and mobile concierges, who can access commercial and private bankers via bluetooth headsets to assist customers. PNC Bank has deployed very small pop-up branches in Atlanta, Chicago, and most recently in Charlotte, creating brand awareness and engaging customers without the need for a lot of space or permanent real estate.

Even as the overall numbers of bank branches are expected to decline, branches continue to be an important part of an omnichannel strategy for financial services organizations, balancing customer desire for nearby branches with their increased use of digital channels.

But true branch transformation is much broader than just changing the look and feel of banking interactions that take place in a bank's physical brick-and-mortar branches. It will require addressing six different strategies, and how these interconnect and evolve over the transformation journey. These strategies include:

1. Business model and management processes
2. Marketing and sales
3. Human resources
4. Branch distribution/layout
5. Omnichannel
6. Customer engagement

Each financial institution needs to develop their own branch transformation strategy that incorporates a combination of these strategies, reflecting their objectives and institutional culture, in an ongoing program to meet the needs of today's changing consumers.

- **Business model and management processes.** To make effective decisions about how to evolve their branch networks, banks need a standardized framework that gathers key performance data and creates a holistic view of their operations. Banks need visibility and actionable data on how employees are spending their time, on what activities and how they are interacting with customers. They can then tie the data to end-to-end processes that are aligned to corporate strategic and customer engagement goals. Categories of measurement and focus could include productivity, service deadlines, quality, financials and employee performance and satisfaction.

- **Marketing and sales.** Gaining market share and increasing revenue is an ever-present objective for most financial institutions. As a result, each organization's branch transformation strategy should include not only revenue planning activities but also tools to help measure whether revenue objectives are being achieved, and where other changes may be needed. Marketing has an important role in communicating the value of branch transformation changes to employees, and also to educate customers on how the bank can help them manage their financial lives in different ways across all interaction channels. Branch sales efforts should be aligned with the rest of the organization and branch sales processes may need to be revised and brought up to date.

- **Human resources.** Financial institutions have an opportunity to leverage their branch network's strongest asset – their employees – in new ways in response to evolving customer expectations and needs. Many financial institutions are actively using or at least piloting universal bankers and financial advisors rather than tellers in their branches. As these types of changes are rolled out, corresponding training and enablement programs are required, as well as the ability to assess where the use of alternate branch employee positions is most effective. Alternatively, banks can incorporate digital technology in branches to help with routine self-service transactions, but also have branch employees on hand to help customers open an account or resolve a more complex service issue. As employee roles evolve, so will the need for Human Resources efforts to identify, recruit and enable the right candidates for each position.

- **Branch distribution/layout.** Surveys indicate that one of the major factors influencing customers in their selection of a bank is the placement of branches near their home or workplace. Even as financial institutions decrease the size of their branch networks, they need to continue to test new formats, as mentioned earlier, while also making changes to existing older branches. In older and larger locations, branches can make minor renovations to remove excess teller windows to make room for new technology or add comfortable seating areas for customers to meet with branch staff. The real challenge will be to ensure that they maintain the right level of "local presence" for both existing and new customers while balancing branch expense.

- **Omnichannel.** Banks need to provide branch staff and all other customer-facing employees with a 360-degree view of customer history, inquiry statuses and overall customer health score for a more personalized, consistent experience across all customer touch points. By having a comprehensive view into this data, employees are empowered to follow-up on a previous interaction, reduce customer friction and increase sales opportunities. Behind the scenes, managers can monitor employee use of technology to better understand the activities and processes performed and make changes as needed to improve customer experience.

- **Customer engagement.** Beyond customer experience or customer satisfaction, banks need to engage customers and deepen relationships. It's more important than ever to capture customer sentiments, behaviors and insights at the transaction-level during a branch visit as part of the customer journey, to help employees understand each customer segment and the impact their behavior has on the customer. In addition, banks need real-time visibility into employee behaviors and performance against goals to ensure that high standards of customer support are being provided.

Digital innovations and customer expectations are changing at a rapid rate, and no one branch model will work across an expansive branch network. By addressing these six strategies, tailoring branch staffing, training, technology and processes to customer segments, and providing the business intelligence to assess success and missteps, you can better evolve your branches to meet the needs of customers now and in the future. ■

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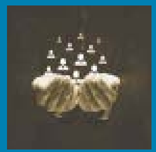

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