

The Case for Moving to a Hub-and-Spoke Banking Model

Executive Summary

Across industries customers are demanding more personalized offerings and service from those they patronize. This is particularly true in financial services as many clients become more comfortable with online banking, kiosks and other automated services.

Teller-assisted transactions are dropping at an annual rate of 10% to 15% at many banks, according to a Bain & Company report. As customers conduct fewer full-service transactions in branches, banks and credit unions must look for new ways to engage them and for ways to save money.

The Bain report also found that as many as 80% of banks in the Americas and Europe plan to make changes to their branch networks, including closing locations and redesigning their current branches. This can be a costly exercise, with Bain estimating that a U.S. bank with 1,000 leased locations could spend \$120 million to close 30% of its network.

As retail branches evolve, they'll need to cater to specific markets and meet customer demands in local areas, according to an article by John Hyche for CB Insight. Many locations will have a smaller footprint with open, flexible space that can easily change to meet new market demands.

One way to this is by implementing a hub-and-spoke model to reduce costs, improve efficiency and better serve customers. In this model a large, full-service location (the hub) is surrounded by smaller, more specialized stores (the spokes), offering flexibility in how customers are served as well as cost savings.

What is Hub-and-Spoke?

This model is based on having a centrally located, full-service branch that's supplemented by smaller, more automated locations. Many of the spoke locations use ATMs or kiosks to complement online banking and offer customers a quick, easy way to take care of banking needs.

There are lots of ways for banks to organize their employees, services and expertise using this model. One way is to have the hub offer all products and services, giving customers space to meet with various professionals.

Spokes typically offer advice or services only. Advice locations usually specialize in a certain activities – such as account origination – and are staffed by two or three people. Video connects these employees with other locations in order to offer additional knowledge. Other spokes focus on service, typically with automated kiosks or ATMs, and typically have one or two staffers on-hand to answer questions.

Much of this model is enabled by new technology, including video capabilities. With this technology, customers are able to speak directly with an employee, increasing the service offerings and sometimes extending the hours agents are available by having them centrally located.

Benefits of the Model

The hub-and-spoke model offers many advantages for banks and their employees. By having smaller locations, banks spend less on space, utilities, labor and other fixed costs. Customers are able to access the services and products they need, with minimal waiting and run-around.

By centralizing administrative tasks, account management and other functions at hubs, banks are able to more flexibly meet customer needs via spokes that can be easily reconfigured, according to a KPMG report. Another advantage is the ability to quickly implement the model. Banks can operate with one hub while spoke branches are being redesigned to serve various locales.

'Spoke' branches can be specifically tailored to local communities, where universal bankers have skills that can go beyond those found in traditional branches, such as speaking a local language. They can also be tailored to cater to commercial or small business customers depending on the needs of the surrounding neighborhood, offering needed services to the area.

The hub-and-spoke model also allows banks and credit unions to change the nature of those they employ. The Bain survey found that while many banks were cutting tellers, they were hiring 50% to 75% more specialists and advisors. This shift can help provide better customer service as employees are trained as universal bankers, capable of handling multiple jobs and assisting clients with a variety of needs. It can also give current tellers and employees a clear path for career advancement, reducing turnover and increasing job satisfaction.

Since employees are trained in multiple roles, financial institutions may see cost savings from reduced overhead while also offering higher quality, more tailored customer service. Labor costs are also reduced by the increased use of technology and automation in the branches. As employees become more efficient in routine tasks, they are better able to focus on selling products.

By offering maximum flexibility in terms of layout, employees and services, the hub-and-spoke model can help banks and credit unions adapt and improve the connection with their customers and the communities they serve.

How Cash Automation Fits Into the Model

A critical component to the hub-and-spoke model is the use of cash automation equipment. Cash recyclers help increase productivity by reducing the need to count cash multiple times, offer another level of controls and make sure drawers balance accurately. Having secure methods for handling cash helps employees focus more on customers and less on cash handling tasks. They also reduce staffing needs in each location as cash processing is automated and easily closed out at the end of the day.

Cash recyclers reduce or eliminate the need for vaults as money is processed and held securely. And by automating drawer balancing tasks, employees are able to spend more time serving customers.

Cash recyclers offer also increased security thanks to built-in safes. And since employees don't need to make trips to the vault, they're more present in the locations, helping them remain aware of surrounds while offering better service.

As efficiency and productivity increase, bankers are moving to a more universal model of service. Customers receive more personal, hands-on help when needed, while banks and credit unions can reduce the number of employees per location.

The hub-and-spoke system would be nearly impossible without the savings brought about by cash recyclers.

Customer Profile—Washington Federal

Washington Federal, with more than 240 branches in the western U.S., is one bank implementing hub-and-spoke branches to maximize profit and offer industry-leading customer service.

By creating branches that respond to customer requests, such as having greeter stands in some locations, Washington Federal is able to easily tailor the experience to local desires. The key to both the hubs and the spokes is automation brought about by their ARCA CM18 cash recyclers.

The automation allows tellers to quickly reconcile their drawer balances, reduces operational costs and opens opportunities for tellers to have longer, more meaningful customer conversations. Because tellers no longer count cash three times, they have more time to focus on other tasks and providing customers with the information they need. The plan is to evolve the role into one of a personal banker, who can engage with clients and offer more products and solutions.

Another bonus for the bank is the ARCA maintenance plan, which monitors recyclers and reports information to the technical service team, catching issues before they become large problems. This level of service helps increase efficiency and productivity of staff as well as the machines, boosting the bottom line.

The recyclers also offer a more detailed picture of cash needs at each location, allowing Washington Federal to better allocate resources. ARCA's ability to monitor the recyclers also gives management confidence in the vault capabilities of the machines.

"So now with the recycler, I'm getting a better feel for what are our real cash needs are at the location," said Tim Vo, project manager at Washington Federal. "These recyclers are also replacing, not even just the cash drawer at the teller line, but in some instances, the vault. So to know that ARCA is watching those and making sure that, for all intents and purposes, my vault doesn't go out of commission, that's a relief to me."

Conclusion

Banking continues to evolve to meet changing customer demands, particularly around providing quality service across channels. As more clients do research outside bank branches and come for transactional help occasionally, banks need to tailor their offerings to best meet demands.

One way to do this is to scale back the size of some locations, making them specialized spokes that connect with a larger, full-service hub. The model reduces costs, improves efficiency and helps banks give consumers the type of service they desire.

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