Branch Evolution - a new approach to branch transformation

White Paper

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Branch Evolution - a new approach to branch tranformation

This guide can’t predict the future, but it can help you prepare for it.

The future of the bank branch is anyone’s guess. It’s a thought that inspires fear in some, excitement in others but has everyone planning for a future they can barely comprehend today. We can’t tell you exactly what will happen, but we know that isn’t as important as being ready for anything.

An uncertain future

The future of retail banking is fraught with uncertainty. At seminars and industry events, you'll likely hear speakers say the branch is going the way of the dinosaur. But there is a strong group maintaining the branch is a vital channel and a key component of a successful financial institution.

Right now, anyone telling you they know exactly what the branch of the future looks like is just guessing. The truth is — no one is 100% confident.

The only certainty is that the future is uncertain. The branch is undergoing a metamorphosis and it's important to prepare your institution for success. The reality is labor costs are rising while teller productivity q u o t e- l e f t The branch remains a cornerstone to a bank's sales and service. It is transforming in areas such as layout and design, sales and service and staff and people. Capgemini analysis is in decline. There are fewer branch transactions which mean each transaction costs more. Something has to change. The bank branch isn't going away, but it must evolve to survive.

Like countless industries before it, banks are being forced to adapt to technological advances. In a rapidly changing landscape, their survival depends on it. But even when technology drives change, it doesn't have to dictate strategy. Technology is a significant investment and usually requires a long-term plan based on something that could be obsolete before you even start to see the ROI.

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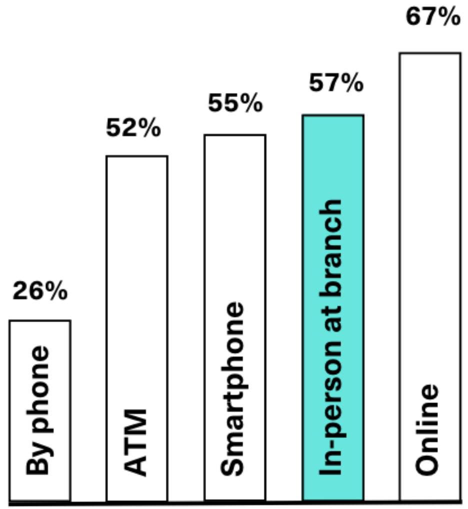
>
> **CAPGEMINI ANALYSIS**

Still want a bank branch? Well, you're only human

When it comes to financial matters, nothing replaces a handshake or a familiar face for reassurance and building trust. Human contact is still important to banking customers, particularly for high-value services. The research shows that all age groups, but particularly Millennials and Gen Z, prefer to visit a branch in person when seeking advice in financial matters.

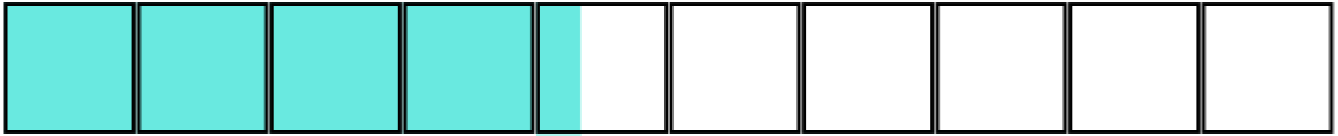
TimeTrade's State of Retail Banking: 2016 Consumer Survey asked consumers in-depth questions about their banking behavior and customer experience with banks. The survey results showed 74% of respondents visit a branch at least 5 times per year and nearly half of all respondents visit more than 10 times per year. It also revealed that people are hesitant to embrace full automation, they want to know a

When respondents were asked to select all of the ways they like to interact with their bank, over half of those surveyed indicated they still visit a branch in person.



Source: TimeTrade© April 2016 The Financial

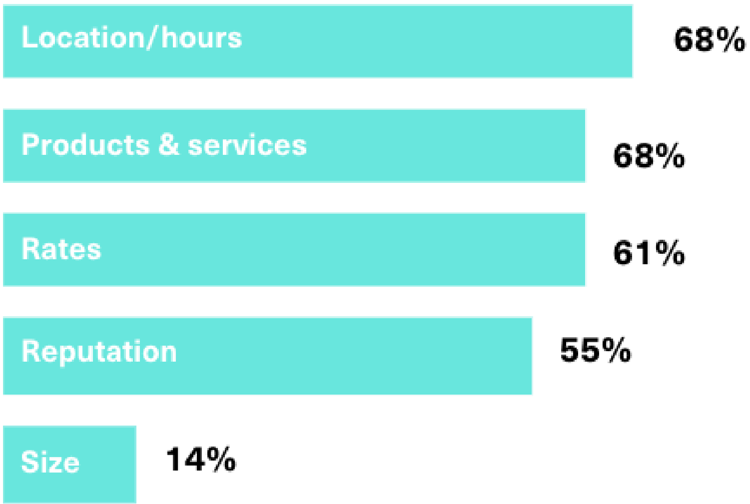
43% of consumers made 10+ visits to a bank branch within the last year



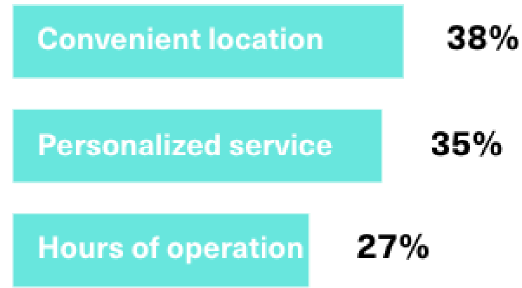
That’s nearly half of all customers making a monthly trip to their branch

Source: TimeTrade© April 2016 The Financial

What are the most important factors when choosing a bank?



What is most important to you when you visit your branch?



Source: TimeTrade© State of Banking 2016 Customer Survey

When choosing a bank, location and hours are most important to consumers, followed by products and service offerings. And when those customers visit a branch of their selected bank, location convenience and personalized service are top priority.

You can get them in the door, but don't make them wait around:

64% of respondents indicate they are willing to wait less than 10 minutes at their bank branch

Source: TimeTrade© State of Banking 2016 Customer Survey

A look back

Historically, bank branches were designed to support cash operations. Specifically, securing cash and assuring counting accuracy. Cash requirements are integral to branch processes and embedded in every element of traditional branch design.

Let's look at the some hallmarks of traditional branch operations and why they exist.

Teller counter
A tall, imposing physical barrier between customers and staff was designed to reduce visibility and accessibility to cash. It sent a clear message — your money is safe with us. Even the aesthetics of early banks, formal marble and wood interiors, reinforced the image of banks as solid institutions that customers could trust to be stable and secure.

Cash handling procedures
Every cash process, procedure and policy was developed for cash security and counting accuracy. The reason tellers count, recount, denominate, face, orient, strap and segment drawers is to ensure accounting accuracy and keep cash secure.

Dual Control

The practice of using two staff members to perform and witness vault and other high value transactions, provides an extra layer of accountability. But dual control is burdensome and creates artificial staffing requirements.

Even the context of security itself has changed over the years. Of course, banks still need to secure cash and customers need to feel their money is secure but how customers view the role of the bank has evolved. They no longer look to banks as the guardian of and primary access point to their cash. Banks are just one financial resource for customers and transparency earns their trust.

Key elements of traditional banks were built around cash and cash processes:

- Security of cash
- Physical design to convey security to customers
- Thick, heavy building materials
- Physical barriers
- Dual control
- Redundant cash processes
- People coming into the branch mainly to deposit cash

Key elements of traditional banks were built around cash and cash processes: Security of cash Physical design to convey security to customers Thick, heavy building materials Physical barriers Dual control Redundant cash processes People coming into the branch mainly to deposit cash

The new paradigm

Traditional in-branch transactions have steadily declined over the past ten years. This has forced banks to look inward at branch costs, efficiencies, and customer service. Retail banks have long been a key touchpoint for customers, and simply closing branches is not the preferred option. Because, despite the costs, bank executives understand the importance of the branch as a critical channel to engage customers and generate revenue.

It’s true that customers visit the branch less frequently, but they still expect to have a branch nearby when they need it. In fact, convenience of branch locations is a key deciding factor in selecting a bank. According to John Elmore, vice chairman of community banking and branch delivery at U.S. Bancorp, “Proximity... is a very, very important factor to bank selection and their continuing relationship with a bank.”

With all the other options available today, people come to a branch because they want a personal experience. Even though branch visits are down, customers still want the option of a personal interaction when they need it.

The 2016 TimeTrade State of Retail Banking survey reported that location/hours is the number one factor in choosing a bank. So having locations close to where customers live or work provides a significant competitive advantage for a financial institution.

A fundamental shift

Cash transactions still drive branch traffic since customers still have to go to a branch to deposit cash. And the time and labor costs of manual cash processing dominate branch operating budgets.

Mundane activities like sorting, counting and recounting bills, balancing drawers and managing cash inventory keeps tellers focused on cash. Dual control processes pull your most expensive staff, like managers and head tellers, into this low value work and often requires extra staffing. When your staff is focused on cash, they're not focused on your customers. It's an expensive arrangement that just doesn't make sense anymore.

Cash automation devices, like recyclers, perform every manual cash operation faster and more accurately than a teller. They eliminate the counting, recounting, sorting and orienting cash, while even detecting counterfeits. And recyclers reduce time and labor-consuming dual control and balancing activities, so cash operations are more efficient and accurate.

Banks usually decide to use cash recyclers to improve teller efficiency and productivity and reduce labor and other operating costs. Either way, banks continue to approach cash recyclers as a solution to cash problems in the branch. They may replace cash drawers with cash recyclers on the teller line or plan more innovative applications like teller pods or open branches in an effort to reduce costs and improve efficiency.

No matter how recyclers are deployed, the typical approach is how to fit cash recyclers into the current cash environment.

When cash is so completely secured at the point of use and under digital control, there's no need for traditional constructs like physical barriers and dual control processes.

Cash automation fundamentally changes everything about cash in the branch. These devices not only resolve security and accountability problems— they redefine the entire cash handling process, and potentially, the entire branch experience.

The usual approach

Branch transformation — it's how most financial institutions are addressing the problem of declining branch traffic. If they make branches more appealing, more comfortable, more automated, more trendy (i.e. less like a bank and more like a store), people will come. And then they'll want to stay.

But this approach ignores the simple fact that people don't go to a bank to shop, work or socialize. People visit a bank to, well… bank. When the bank branch was the only way they could service their checking and savings accounts, they came. So it's logical that branch traffic is down simply because so many routine transactions can now be done online, with a mobile device or at an ATM. Simply changing the look and feel of the branch isn't going to increase branch traffic. Just because you build it, doesn't mean they will come.

Financial institutions struggle to find ways to bring customers back into the branch. Inspired by design models used by successful retailers, banks have been incorporating patterns and design elements to make branches more appealing to customers. But does making a bank more like a coffee shop or popular retail store really bring in more customers?

It's time for a different approach.

Banks need to look at the services that still drive branch traffic. Then they can focus on out how to attract customers by making the branch the preferred channel to receive those services. It's time for a different approach. Banks need to look at the services that still drive branch traffic. Then they can focus on out how to attract customers by making the branch the preferred channel to receive those services.

> Customers may not visit a branch regularly or much at all, but the fact that it is there if they need to deal with a real person is what counts. That is why smart bankers continue to believe in branches but continually change their appearance, design, offerings, hours and, yes, technology to meet customer needs.

American Banker | "Bank branches don't die, they evolve"

Evolution, not revolution

There is a different approach to branch transformation, one where technology and strategy coexist. This approach is gradual and minimizes your risk when industry trends do (and they always will), change. Most importantly, it doesn't require a plan for the future based on today's technology.

It's with that thought in mind that we introduce a different philosophy — branch evolution. Enterprise-wide branch transformations are difficult and often lock you into a long-term strategy that is less than ideal. Developing a step-by-step approach to change is a smarter way to move forward during this uncertain period. It gives you the flexibility to respond quickly into an ever-changing landscape.

Evolution begins when external pressures demand a change. In order to survive, an organism (or organization) must make small, gradual changes. Then the most advantageous changes, those that promote the greatest success, are repeated and become part of the final makeup.

An evolutionary change doesn't happen overnight — it's a process. It's the gradual development from a simple to a more complex and improved form. And it's the most natural way to adapt to ensure the most successful outcome.

A step-by-step approach puts your customers, your products, your delivery and your technology at the center of your branch strategy. You have the freedom and flexibility to adjust your strategy, mid-course, if necessary.

It’s elementary

There are several different cash environments in the branch. These identifiable cash environments impact branch profitability and are important to branch operations:

- Teller line
- Pod
- Universal banker
- Assisted self-service
- Vault buy
- Merchant window

Each of these cash environments is associated with a collection of events. You need to understand the events that occur in each environment, the privacy requirement and the devices that are associated with each one. There are several cash and non-cash technologies in the branch but we will focus on the cash devices which include:

- Teller cash recycler
- Currency sorter
- Currency counter
- Banknote deposit
- Coin deposit
- Kiosk

These devices automate routine events within each cash environment. And they allow for a modular, evolutionary process transformation through implementing small, incremental changes in order to monitor and understand its impact on the branch staff, the consumer and the merchant patterns of use.

In an age of constant change, organizations must constantly adapt and financial institutions are no exception.

Technology often drives change but it shouldn’t dictate strategy.

Change is difficult

Change is scary. People (and organizations) resist change. But why? Because change is often reactive. It's usually made in response to a crisis and therefore, is focused on short-term results. This kind of change is too sudden, too extreme... too revolutionary.

Changes made in crisis mode don't often stick. As soon as the crisis is over, things return to business as usual. Revolutionary transformations force you to invest in totally new products that work in a completely new way, requiring time, extensive training and a steep learning curve.

But modular products can be introduced in stages. They can integrate with your existing systems so there's a shorter learning curve.
Each stage allows staff to gradually adjust the new processes and workflows. At this pace, you can make adjustments. Then, when you and your budget are ready, you can move the next stage. You are building incrementally, so you can have flexibility when strategies shift.

Sound strategy starts with having the right goal.

Michael Porter

Easing into a branch evolution strategy

The fundamental basis of the Branch Evolution concept is that a technology decision made today should provide immediate benefits while keeping options open to adapt to changes later on. Regardless of what tomorrow's branch ultimately looks like, there are three pillars critical to continued branch success: design, technology, and people.

Design
Redesigning an entire branch network is not always feasible. There are many problems that limit these projects; often, it simply comes down to cost. An easy first step is to examine first impression aesthetics. Can the lobby be brightened up with a more modern paint palette? Can you include some simple wall graphics that convey your core messages? Should technology have a role in the design?

Digital signage, cash automation machines, and assisted self-service kiosks are just a few examples of technology updates that are minimally invasive to most traditional branch layouts. They give the perception of progressive change, while also having a measurable ROI. And consistent with the "Branch Evolution" strategy, each of these technologies can be repurposed if and when a more radical branch overhaul project is implemented, essentially future-proofing the branch.

[redacted]

Potential design pitfalls

- **Cost prohibitive**
  It's expensive to overhaul an entire branch with infrastructure
- **Labor intensive**
  Many legacy branches have traditional layouts designed for a different era of banking
- **Legacy layout constraints**
  A new layout means redesigning processes and training staff

Technology

Retail banking is moving away from a transaction-driven culture to a more consultative one. Technology can influence this. It is imperative to look at technology that has the ability to change with your growth.

For instance, during high-traffic times, a roaming teller can expedite customers to the correct part of the branch, often saving time and ultimately creating a better customer experience. Once your branch strategy has been further defined, those same roaming tellers can be used in an assisted self-service model or even a hybrid traditional branch model with a centralized cash recycler, to:

- Speed up transactions
- Reduce time in queues
- Result in a better customer experience

Another scalable strategy is using cash recycling technology that can be repurposed throughout the branch. For example, some cash recyclers can adapt from behind-the-teller line placement to an underthe-desk position, which is perfect for a universal banker or teller pod. Both options give immediate operational benefits without mortgaging the future health of your branch network.

Behind the teller line
Just installing cash recyclers behind your teller counter and at your drive-thru will improve productivity and enhance customer service for a quick win.

Teller pods
When you're ready to transition to an open branch layout you can place your tellers in pods located throughout the branch. Recyclers provide the flexibility you want and the security you need for this application.

Universal banker
If you decide to implement Universal Bankers, recyclers equip them with the ability to perform high-end consulting activities and manage routine cash transactions from any location in the branch.

People

The most important customer is one that actually walks into a branch. Today, if a person walks by the ATM, cruises past the drive-thru, and leaves their smartphone nestled securely in their pocket, there's probably a reason. They need to speak directly to a person.

To make the transition to a consultative mindset, staff needs to be prepared to succeed. Moving away from a transactional model will require current employees to learn new skills and get comfortable taking a more hands-on approach with customers. This fundamental change in philosophy is often the most difficult obstacle to overcome. Human resources will also need to adapt hiring requirements and processes to reflect different capabilities.

Tellers will no longer be bean-counters and instead will need to be able to assist customers with mortgage products, personal loans, or setting up a new accounts. Today, tellers are not trained for this level of service, so a branch evolution strategy needs to include training plans to help tellers develop these skills.

What’s next?

The future of retail banking is uncertain, but there is strong evidence that an omnichannel experience is important. Customers want a seamless experience between the banking channels and the retail branch continues to play a role.

Building a scalable branch model is vital for an unclear future. In the meantime, focusing on design, technology, and people will put you in a position to succeed.

Branch transformation, employed properly, frees up branch staff to engage customers and generate revenue.

Start generating revenue for your branch now.

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Since 1998, Arca has been committed to helping people control and streamline cash operations in bank branches, retail stores and self-service kiosks. By focusing on technology and services, Arca delivers thoughtful solutions to make transactions simpler, more efficient and more secure.

We are reimagining everyday transactions, freeing people to focus on what matters most.

Connect with us

ARCA.Cash
@ARCAcash
ARCA Worldwide
arca.worldwide
ARCA Worldwide

United States, Global Headquarters
1400 Dogwood Drive
Mebane, NC 27302
United States

Italy
Corso Vercelli 332
10015 Ivrea (TO)
Italy

United Kingdom
The Capital Building
12/13 St Andrew Square
Edinburgh EH2 2AF
Scotland

France
1, avenue du president Pompidou
92508 Rueil-Malmaison CEDEX
France

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