Making the Branch Profitable

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Five years ago, when customers were about knee-deep into using channels like the ATM and online banking, they still found plenty of reasons to take advantage of face-to-face service. Waco, Texas-based Extraco Bank was typical of most banks. At that time, a little more than half (54 percent) of Extraco's customer transactions occurred in branches.

Now that customers are wholeheartedly embracing electronic channels, only 12 percent of transactions happen in Extraco's 17 branches. "And who knows what the mobile phone will do to us," says James Geeslin, vice chairman and chief sales officer for the $1.2-billion asset bank.

This speedy turnabout in customer habits is the harsh reality facing branch banks today. For years, the industry has been comfortable with the idea that electronic delivery channels and traditional branches should co-exist. Having a mix of channels has been elemental to the widely accepted strategy of giving customers the opportunity to bank when, where and how they want to.

But lately the dominant influence of electronic channels has become hard to ignore. With transactions moving out of the branch at a rapid rate, the industry is calling into question the need for all that floor space and all those teller windows. Even the biggest proponents of traditional branches will likely have to rethink their approach if they want to keep their branches profitable. Banks that already have begun to make the transition are finding certain techniques and tactics—including remote deposit capture and universal bankers—indispensable.

The data behind the trend is compelling. The average branch today performs about 1,900 to 2,000 transactions per month, down from 2,700 10 years ago, according to Novantas LLC, a New York-based management consultancy. Accordingly, the typical bank is starting to see a 7 percent to 8 percent annual decline in teller transactions. Banks that let customers deposit checks through image-enabled ATMs are experiencing declines of up to 12 percent.

The relentless pace of technology is part of the reason for the drop in branch transactions. Perhaps more important is increasing customer acceptance of self-service. Customers already check themselves out at the grocery line and print out their own boarding passes at the airport. So it's only natural for them to expect to handle more of their banking transactions on their own.

Reduced branch transactions lead to an ugly math. With less walk-in traffic, banks have fewer selling opportunities. Sales are down accordingly, with the typical branch making 1.1 sales per person per day, down from 1.7 10 years ago, according to Novantas. That trend has some banks scrambling to hold the attention of customers who do walk in the door. "The emphasis now is on using the branch more proactively for outreach, not just for transaction processing," says Darryl Demos, a partner at Novantas.

Extraco has taken the concept of proactive outreach to a high art form. Four years ago, it determined that its branch structure was highly inefficient. Tellers behind the line performed basic transactions, while deskbound relationship bankers dealt with more involved issues like opening accounts or solving problems. When one group was busy, the other group was not equipped to help out. "We knew we could do more with less," Geeslin says.

The bank began by changing job descriptions. Rather than tellers and relationship bankers, it wanted "universal bankers" who could handle any job related to customer service, sales or basic transacting. It wanted to minimize time spent on administrative duties so bankers could have more time to spend with customers. And it wanted to emphasize the importance of engaging with customers quickly, rather than making them wait around.

These goals led Extraco to the development of a concept it calls "swarm banking," for which it hopes to receive a patent. Under the swarm methodology, headset-wearing bankers rove about, engaging with customers within five seconds of their walking in the door. Administrative and operational duties are reduced to the bare minimum, so bankers can spend as close to 100 percent of their time as possible delivering personal service.

The stepped-up focus on customers required a drastic change in the technology supporting basic branch transactions. Extraco now has free-standing pods located throughout its lobbies to handle transactions. Cash recyclers within the pods eliminate the need for bankers to count out cash when handling deposits or withdrawals. They don't need to worry about buying or selling money to the vault throughout the day. Nor do they need to go through the 15- to 30-minute process of balancing out at the end of the day. Everything is handled automatically.

To address check-related tasks, Extraco added teller capture—the ability to capture and process images of checks right at the pod station. The technology has yet to gain ground at many banks because of its expense (it requires a scanner at every teller station) and the feeling that it detracts from the customer experience by turning customer-facing bankers into check processors, otherwise known as proof operators. Bankers scan checks as soon as they are deposited, correcting errors on the spot.

Not every bank is convinced of the value of teller capture. "Of all the branch image capture considerations, none is more controversial than the debate surrounding teller capture," noted Bob Meara, senior analyst at the consulting firm Celent, in an October report. "Teller capture invites a clash of two worlds, and the evoking of strongly held preconceptions. The most consistent argument against teller capture appears to be philosophical, reflecting the belief that 'turning tellers into proof operators' must logically require more time and effort than current procedures."

Rather than install scanners at every teller station, many banks have opted to position one or two larger ones at the back counter. Under this approach, bankers let checks pile up, then scan them as they have time. With fewer scanners required, back-counter capture is less costly to implement than teller capture. But, says Meara, it "inevitably" requires branch staff to separately handle administrative tasks related to problem checks.

Bankers are not conflicted about the idea of using imaging in general to handle checking tasks. Check imaging in the branch is nearly ubiquitous. By the end of 2012, Celent predicts that 13,400 banks, or 93 percent, will have some form of check imaging in their branches.

But so far, only eight percent have deployed teller capture, up from six percent in 2011, according to Celent. The rest—92 percent—perform back-counter capture. But that ratio is expected to change. Going forward, Celent predicts that virtually all the growth in branch imaging will be in teller capture. The need to redesign branches to make them more efficient is a large part of the reason behind the push, Celent says.

For Extraco, teller capture was a natural choice in its effort to minimize administrative duties in the branch and better engage customers. "Teller capture and cash recycling let us cut transaction times in half and take care of customers a lot more quickly," Geeslin says.

StellarOne, a $3-billion asset bank based in Charlottesville, Virginia, has embraced many of the same concepts, including teller capture, in its effort to redesign its branches. It, too, hit upon the universal associate model as an antidote to declining branch transactions. In its three newest financial centers, StellarOne has "conference pods" within six feet of the door, where bankers await and greet customers, says Josh Gehring, director of retail banking. It plans to roll out the design to all its 54 branches.

Teller capture is in the works, and viewed as an integral part of the plan. "I see teller capture and teller cash recycling as being no-brainers to pull off the universal associate model," Gehring says. "You just have to have it in place, otherwise you'll get bogged down in the old way of doing things."

In an interesting twist, StellarOne is replacing teller lines with in-branch videoconferencing systems. A single associate, working inside the branch via videoconferencing, will be able to handle basic transactions coming through the drive-through as well as two teller windows. When things get busy, another universal associate from the floor can jump onto the videoconferencing system to provide support.

The set-up will cut down on the number of associates required in the branch, while also altering the customer's perception. Rather than seeing five to seven chronically understaffed teller windows, customers will see branch associates working together to meet demand. "Customers are much more understanding of the wait when they see all available resources being used effectively," Gehring says.

The flip side of automating current teller tasks is the need to get associates to step up to the new job of engaging customers. Extensive training is in order. Extraco is training new associates for 12 weeks and StellarOne for eight. “We’re trying to get away from it being a transactional model and into being a more holistic approach,” Gehring says.

So far, the new model appears to be working. StellarOne is experiencing an 18 percent to 20 percent lift in new accounts and cross-sales at the locations that feature universal associates, rather than tellers.

Not surprisingly, tellers are not a growth industry. Novantas expects the number of tellers in the U.S. to drop to 125,000 in five to seven years, down from 500,000 currently. The key to successfully navigating this transformation will be to recast the role of the teller. “The fact is that so much of the job can be automated,” Demos says. “So you need to build new skill sets."