BAI Banking Strategies
Executive Report

April 2022

Branch banking continues its radical evolution

POWERING SMART DECISIONS.

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The branch of the future is taking shape now

BY TERRY BADGER, CFA
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Among the enduring questions in banking, perhaps none is asked more frequently or elicits more varied responses than "What does the future hold for the branch?" This query has understandably picked up momentum since the pandemic, but its persistence as a front-burner issue goes back to the 2008 financial crisis.

The answer we tend to hear most is that the branch of tomorrow will function primarily as an advice center for customers. The thinking is that processing deposits and other low-level transactions will be usurped by the mobile and online channels, and that people taking all the time and trouble (not to mention the price of gasoline) to get to a physical location will do so primarily for value-added services.

A recent BAI Banking Outlook survey supports this view. Our research found that bank customers on average expect to do roughly 60% of their banking via digital by 2024.

If this is indeed what's in store for the branch, how do banks and credit unions get from here to there? We explore this question in this month's issue of the BAI Executive Report.

In our lead article, BAI contributing writer Katie Kuehner-Hebert checks in with both large and small banks to learn more about how they are reimagining their branch networks to meet changing customer wants and needs.

At one end of the size spectrum, Wells Fargo is increasingly relying on artificial intelligence to help its branch bankers know more about customers so they can better anticipate what their needs might be and where cross-selling opportunities might make sense.

At the other end, Wisconsin-based IncredibleBank is outfitting branch staff with WiFi-connected headsets that allow them to move unencumbered so they can quickly get to where they're needed. For drive-thru customers, the bank is offering video capabilities that provide a more interactive experience while working with tellers.

CEO Todd Nagel says the evolution in features and duties has created "a major shift in the type of employees we recruit—we're now looking for much more tech-savvy people."

The hunt for the tech-savvy or other skilled employees is a persistent challenge across the banking industry, and as the shift to an advisory-type branch model picks up pace, the "race for talent" stands to intensify.

Contributing writer Lauri Giesen digs into the issue of talent, including the specific skills that banks should be prioritizing and the training necessary to cultivate those skills in existing employees. A Texas bank executive quoted in her article cautions against shortchanging the training element, saying that rapid tech advances justify four to six hours of education each month because "training every once in a while will not work."

Also in this month's Executive Report:

- **Making the branch relevant by design:** My interview with design visionary Jean-Pierre Lacroix on how banks and credit unions need to innovatively rethink their physical environment to connect with customers as the industry becomes increasingly digital-dominant. Lacroix points to a handful of U.S. and Canadian banks as being out front on establishing the emotional link that creates long-term loyalty.
- **From branch to engagement center:** Jackie Hudson from Verint takes the position that channel-integrated lobbies can provide a more unified experience for customers and a more effective business model for banks and credit unions. Hudson says the answer is to convert the branch to a "customer engagement center"—a physical location fully integrated with other channels.
- **What's the future of in-person banking?:** Vincent Chamasrour from Temenos believes that, by leveraging customer insights and digital workflow to provide an enriched experience, financial institutions can breathe new life into their branch networks. Chamasrour says merging digital transactions with real-life encounters in the branch is necessary to connect with customers.
- **Plugging into hybrid banking:** Kelly Weaver from JRNI tells us that adding virtual capabilities to the traditional branch network can better cater to customer expectations while also cutting costs. Weaver discusses a number of ways that banks can go more virtual, with one of the key areas being appointment scheduling to increase both personalization and efficiency.
- **Banking as an on-demand experience:** Steve Nogalo from NCR writes that a surcharge-free ATM network can allow any bank to put its brand in front of account holders where they live, work and play. Nogalo adds that the machines are incorporating more services, such as generating statement copies and paying bills, and even more capabilities are on the horizon.

We hope you find value in this Executive Report focused on the future of the branch. Feel free to email me to let me know what you think.

Terry Badger, CFA, is the managing editor at BAI.

Transforming the branch experience

Despite the accelerating pace of mobile adoption, bank branches have a critical role to play in customer engagement.

BY KATIE KUEHNER-HEBERT

Long before the pandemic hit, many banks were well on their way to rethinking their branches to better accommodate customers' increased use of digital channels. Now, in the wake of shutdowns forcing more people to bank online, adopt mobile apps or visit ATMs—and with net closures of nearly 3,000 branches in the U.S. in 2021—the reinvention of the branch has taken on even more urgency.

By 2024, customers expect 61% of their banking business to be digital and 39% human-assisted, with the biggest projected increases coming from mobile and ATM, according to BAI Banking Outlook research identifying the top banking trends and challenges for 2022. It's little surprise that mobile-native members of Generation Z showed the highest preference for opening deposit accounts via their cell phone.

But branch networks still have a place, the report's authors write: "Branches are still critical for many customers today and (are) the preferred method for opening deposits by Gen X and Boomers+."

Bank customers continue to want their financial institutions to have conveniently accessible physical branches, but the definition of "convenient" has changed noticeably over the past decade, says Dave Martin, founder of consulting firm bankmechanics in Sugar Land, Texas. If customers need to visit branches less frequently, the distance they're willing to travel to the closest branch increases, thereby expanding the viable service area of each location.

> *Bank customers continue to want their financial institutions to have conveniently accessible physical branches, but the definition of 'convenient' has changed noticeably over the past decade.*
>
> **DAVE MARTIN, BANKMECHANICS**

"This is actually good news for smaller banks without large networks," Martin says. "Larger banks remain as committed to physical branches as ever—they just see that it requires fewer branches in a market to achieve acceptable access to customers."

Most of the branch reductions are actually large banks "rightsizing" their networks as they tweak the remaining branches, he says. "Branches remain the center of the banking universe for the majority of banks and the growth engines for these operations."

DAVE MARTIN
BANKMECHANICS

CREATING 'THE BRANCH OF THE FUTURE'

Prior to the pandemic, the $1.7 billion-asset IncredibleBank in Wausau, Wisconsin, had been working to create the "branch of the future," complete with teller pods, cash recyclers and headsets for staff to help them move more freely around the branch and service drive-thru customers.

"The pandemic has most certainty expedited the transformation of our branches," says Todd Nagel, the bank's CEO and president. "It also changed the plan a bit, as we realized we needed to put more emphasis on the drive-thru lanes as people began to use them much more."

To create a better experience for customers in vehicles, IncredibleBank improved drive-thru audio and lighting and introduced video to enable more interaction with tellers. In addition, cash tubes are now adjustable, easing access for customers in vehicles of all sizes. The pandemic also accelerated customer adoption of the bank's mobile app.

With branches handling fewer transactions, staff are more focused on consulting with customers, Nagel says. Seventy percent of consultations have focused on helping customers learn how to use the mobile app, including making deposits by phone, finding ATMs and using payment services. "This has also caused a major shift in the type of employees we recruit—we're now looking for much more tech-savvy people."

While IncredibleBank has always had a sales culture, Nagel believes customers have become more proactive in asking about other products and services. "It's the sentiment that, 'I'm coming into this building now, what else do you have that I should be looking at?'"

IncredibleBank is set to open more branches in Wisconsin, as consolidation has created opportunities to grow, and some in Florida, following people from the Midwest who spend the winter there.

TODD NAGEL
INCREDIBLEBANK

SHAUN MCDOUGALL
WELLS FARGO

"I think the branch is here to stay for a long time—smaller community banks in particular should look for opportunities to expand," Nagel says.

TAKING LOCATION CUES FROM CUSTOMERS

Wells Fargo, the $1.8 trillion-asset bank headquartered in San Francisco, has reduced its total branch count as customer preferences and transaction patterns have shifted more to digital channels, says Shaun McDougall, growth and branch administration leader. However, there are still opportunities to consolidate existing branches and/or open new branches "as customers engage in financial checkups with bankers to create and fine-tune long-term financial plans."

"Every day customers walk into a branch to talk to a banker about a complex financial need or a life milestone like home buying," McDougall says. "Our branches continue to be a place where customers can sit down with a banker and have a meaningful financial conversation to help them reach their goals."

Wells Fargo is enhancing the tools its bankers use, he says. For example, the bank's "customer engagement engine" uses artificial intelligence to help staff better understand and anticipate customers' needs and then have "relevant and personal conversations to determine what's right for their individual financial circumstances."

At the same time, digital will become a bigger part of the branch experience in terms of new customer financial wellness tools, banker-assisted mobile transactions and mobile account opening, McDougall says.

Consulting firm Accenture predicts the branch network of the future will revolve around "experience stores"—the centerpiece of "an agile, integrated network of environments that are multi-format, geographically tailored and digitally enabled."

In Accenture's vision, laid out in a pre-pandemic report, experience stores will showcase products and provide complex advice; empower staff with simple mobile technology; emphasize the human touch, with staff "complementing technology with empathy"; and operate as an integrated component of the overall channel strategy. Branch networks in each market will feature an "experience hub" augmented by satellite branches, while the exact mix could differ among geographies.

Accenture's recommended model is "one that's led not by the need to house transactional activities in a particular location, but by the vital importance of meeting customers' changing expectations and providing them with an experience that they'll come back for."

However branches get reinvented, networks are here to stay for the conceivable future.

Katie Kuehner-Hebert is a BAI contributing writer.

Talent beyond the transaction

As the banking industry shifts to meet changing customer needs, the branch workforce must expand its skills to keep pace.

BY LAURI GIESEN

Whatever model banks adopt in redesigning their branches to prepare for the future, several trends are clear: Branch employees will have to move from processing transactions to engaging with customers, educating them about new technology and helping them plan their financial futures.

These trends raise several important questions. Do branch employees who have spent years cashing checks and taking deposits have the skills necessary for these new priorities? What training will they require? And in hiring new employees, what skill sets should banks be looking for? And where will they find prospective employees who have those skills?

Adding to the complexity of staff issues is the ongoing exodus of employees from many companies—the so-called "Great Resignation." Will this trend make it harder for banks to keep highly skilled people and to find new employees with the required skill sets?

"As we reimagine the future of banking, we understand digital offerings may provide more convenience and flexibility to our customers, but there is still a need for human connections," says Jennifer Windbeck, head of retail bank channels and operations for Capital One. "We are seeking new talent who are knowledgeable about personal finance and can assist with answering financial questions and offer banking advice where digital tools cannot."

But the talent needed may be different from what banks have traditionally sought from branch employees. "We look to our branch and (Capital One Café) associates to bring humanity to the model by handling more complex and potentially emotive conversations," Windbeck says. "Bank branches can be perceived as intimidating places, so our goal is to create a safe, open environment where people can get the support they need, along with the convenience of our digital tools and resources."

One issue that banks face today is that many younger customers question the need to even use a bank. "Many young customers are asking why they need a bank when they can use online services like Square, PayPal or Google to complete financial transactions," says David Peterson, chief innovation officer at Baton Rouge, Louisiana-based First National Bankers Bank.

JENNIFER WINDBECK
CAPITAL ONE

MAKING A CASE FOR BANKS AND BRANCHES

What banks need in their branches, Peterson says, are employees who can present a compelling case for using banks and their services.

But not every employee will be able to meet the new requirements. "Not everyone gets it in terms of what is needed, and those that don't get it may have to be terminated," Peterson says. "That's a tough thing to do,

DAVID PETERSON
FIRST NATIONAL BANKERS BANK

JAMES GEESLIN
EXTRACO BANKS

Investing in digital-skills training for employees not only captures their attention but also inspires them to proactively learn and accept change.

JAMES GEESLIN, EXTRACO BANKS

and banks are not known for firing people. But if employees can't make the change, they may have to go."

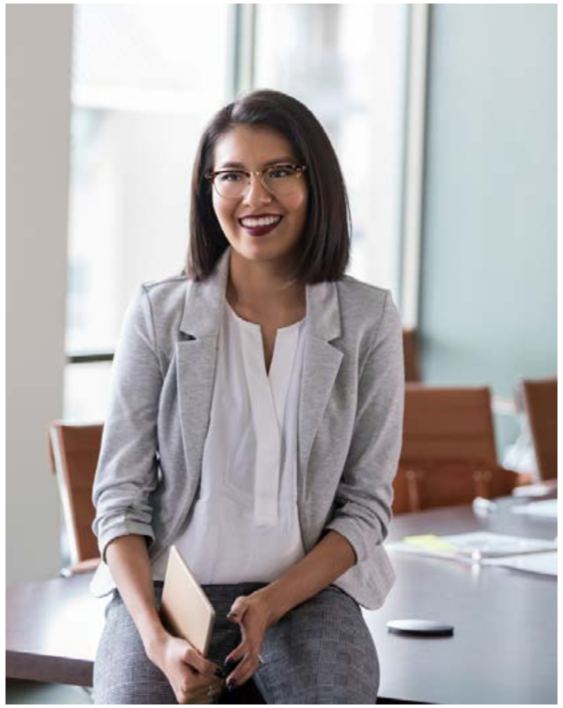
Still, many employees who came up in the old branch ways will be able to adapt if they are willing to adjust to the new environment.

For all employees, the key is training. "Technology is moving fast, and there are a lot of new gadgets and systems—you have to keep your employees up to date," says James Geeslin, vice chairman and chief consumer banking officer for Extraco Banks, a Waco, Texas, bank with $2 billion in assets. Geeslin suggests that banks provide four to six hours a month of refresher courses for branch employees because "training every once in a while will not work."

This training should include instruction in using digital tools. "Investing in digital-skills training for employees not only captures their attention but also inspires them to proactively learn and accept change," says Windbeck.

Banks will also need to look outside their organizations for more talent. "We've been actively hiring skilled talent for our local cafe locations, where we have fully trained cafe ambassadors and coaches who assist in answering financial questions. The ambassador's goal is to help, not sell you something," says Windbeck.

And the best employees for branches of the future will not necessarily come from other banks. "You need people with a good work ethic and a good attitude who are adaptable. You can teach them about the banking industry," Geeslin says.



Fields that are ripe to raid for new employees include retail, food service and sales—fields in which many employees have strong people skills. Peterson also likes to hire people in day care and education because they are good at engaging with people and explaining things.

'GREAT RESIGNATION' AS A POSITIVE

The Great Resignation may actually help banks find good people. Because a lot of employees in food service and retail are quitting their current jobs, more potential candidates are available. "A lot of these people can be sold on moving to banking because of better hours or working from home," Peterson says.

But the case to move into banking should be about more than a few perks. "You also have to show them that this is an opportunity where they can help people plan their finances and improve their worlds," Peterson says.

Even as the Great Resignation is making more potential employees available, it is also causing more turnover at bank branches. "The pandemic has not caused excessive turnover in bank senior management, but it has caused a lot of turnover with lower-level employees," Geeslin says.

While banks try to attract talent from outside, they should be cognizant that other industries are also trying to attract their own employees. "It's a tight job market, and banks have to fight hard to keep and attract the best people. It is tough to increase wages right now, but you may have to pay to get and keep the best people," Geeslin says.

Banks may need to offer more flexible hours or provide more time off. Other perks may include helping with day care needs and even helping cover fuel costs for employees to get to work, Geeslin says.

In seeking out new employees, bankers may need to alter some of their perceptions about what they want. "Some Gen Zers and millennials want to deal with people who look and act like they do. But that raises interesting questions. Would you hire an employee who had a lot of tattoos? A lot of millennials and Gen Z customer have tattoos and might be able to relate to someone who looks like them," says Peterson.

Lauri Giesen is a BAI contributing writer.

Making the branch relevant by design

Banks need to innovatively rethink their physical environment and test new ways of connecting with customers.

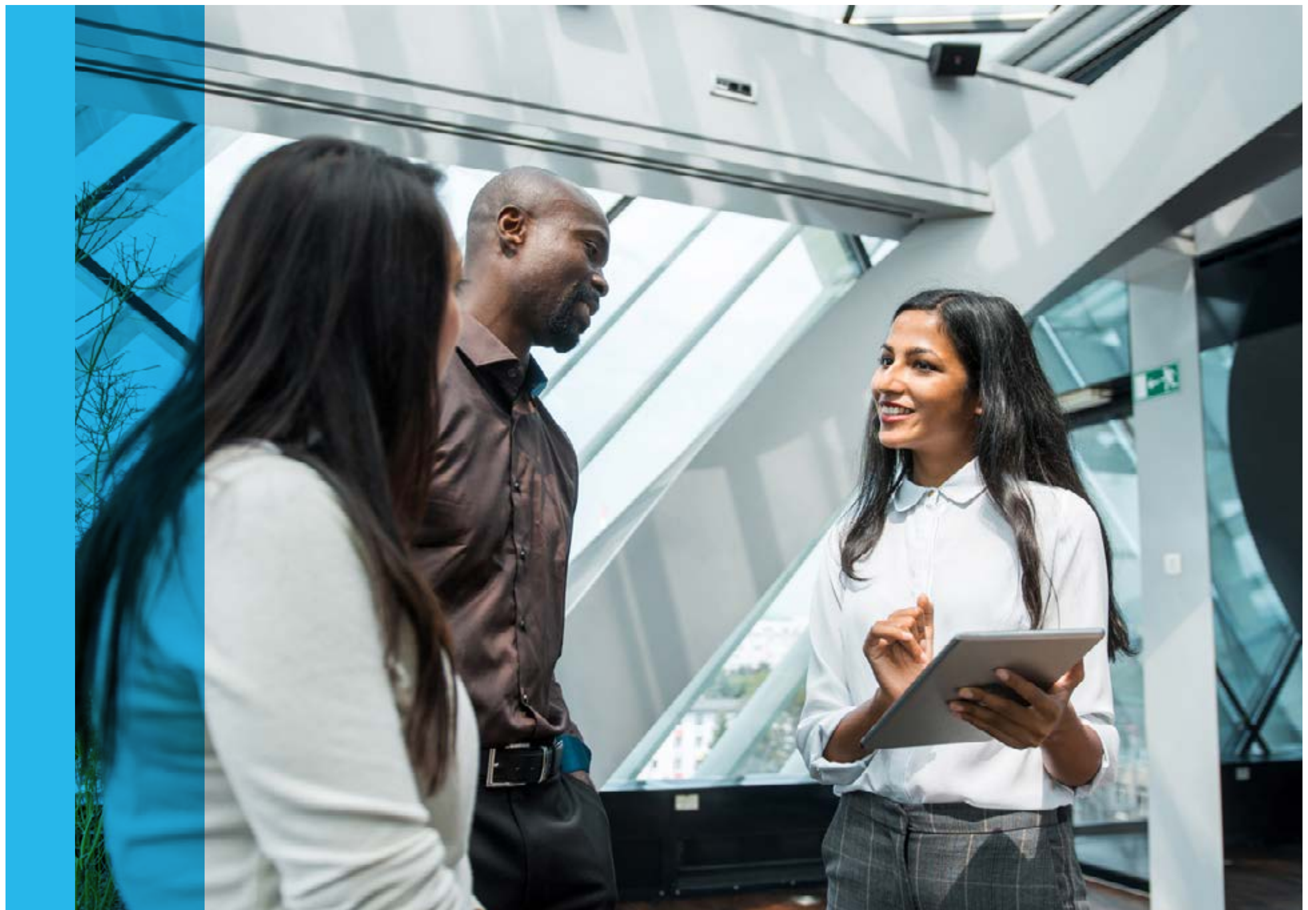
BY TERRY BADGER, CFA

Among the foremost priorities for banks and credit unions is improving the customer experience by making transactions faster and easier, by providing access from anywhere and at any time, and by creating a greater degree of personalization to anticipate and meet individual customer needs.

While much of this effort is focused on digital channels, financial institutions are also looking at their branches and the help they can provide in forming deeper and more profitable connections with their customer base.

BAI recently spoke to Jean-Pierre Lacroix, co-founder and president of the Toronto-based branding and design firm SLD, about the current state of the branch and how banks and credit unions should be thinking about their physical presence in a digital-dominant world.

The interview has been edited for length and clarity.



BAI: What role does design play for traditional financial institutions, and how has that role been changing for banks and credit unions as digital technology redefines the industry?

Jean-Pierre Lacroix: Banks embrace design and design practices to help differentiate themselves and create the ideal customer experience. We need to realize that customers, irrespective of age, put a lot of value in the built environment to have conversations with their bankers. The pandemic has shifted the relevancy of the branch from being transactional toward more consultive selling, so the question becomes, how do you transform that branch into an advice center and then use the branch to focus on reducing customers' financial anxiety and helping them manage their finances for their future?

Your company, SLD, talks about "owning the blink factor," which you call a critical branding element for financial services providers. What is the blink factor, why is it critical and how does a bank get to own it?

The "blink factor" concept was inspired 32 years ago when we were doing work for Pizza Hut in the U.S. At the time, many consumers were calling Pizza Hut "Red Roof," and when we dug deeper into why they were doing that, we realized that customers make decisions visually and emotionally, and they use color and shape as key drivers. Looking at the banking industry, how do you differentiate your financial institution from your competitors? The blink factor is that split-second experience of connecting emotionally with the consumer as they are interacting with the bank. The more emotionally connected customers are with their bank, the greater their loyalty, the more they are willing to pay for services, and the longer they stay with that financial institution.

JEAN-PIERRE LACROIX
SLD

How does a bank's physical presence contribute to its desire to connect emotionally with customers at an individual level?

We've surveyed U.S. banking executives to determine the state of physical and digital transformation for banks. In doing that, we identified two major dimensions that executives are concerned about. The first is technology for technology's sake that is not effectively connected to the needs of people, and the second is that there's a significant skills and capabilities gap within banking. Banks have done a fantastic job of managing their digital transformation, but it's important to understand where things are going in the future. I think the future holds more connection

> *To me, it comes down to a bank's willingness to innovate. ... Are they testing different branch layouts? Are they testing different transaction zones and engagement zones and exploring how to reduce customer anxiety?*
>
> **JEAN-PIERRE LACROIX**

among digital technology, physical environment, staff training and engagement as banks build more personalized relationships with customers. Personalization can be as simple as the bank staff recognizing customers by their first name every time they visit the branch. Those one-on-one relationships build rapport and trust that go far beyond the transaction.

Name some banks or credit unions in North America that you think are using design and branding well, and what are they doing to make you think that?

Regions Bank and U.S. Bank are doing a phenomenal job of shifting the customer journey from transaction to advice, and Bank of America and Royal Bank of Canada also stand out in looking at customer needs when it comes to the built environment and embracing design as an important factor. To me, it comes down to a bank's willingness to innovate. Do they have an innovation lab? Are they testing different technologies to engage customers? Are they testing different branch layouts? Are they testing different transaction zones and engagement zones and exploring how to reduce customer anxiety? Most banks today are looking seriously at customer experience in their built environments. Our recent "Measuring what matters" study clearly supported the fact that a renovated branch drives visitation and sales. They're realizing it's an opportunity to grow market share in the retail channel in ways that they can't really do on their digital platforms.

You're on the road a lot, so what have you seen lately that looks to your experienced eye like it may be at that forward edge of technology, design and branding within financial services? And where are you seeing it?

As I always tell clients, if you really want to look at the future of banking, take a plane ride to China and spend two weeks there visiting branches and bankers. I can go to a branch in China and open an account, get a credit card and get a debit card without ever coming in contact with a banker. They've eliminated a lot of the friction points that we still face today in North America. You don't queue in China; you check in. You can make an appointment ahead of time to engage with whichever service provider you want within the bank—this allows the bank to manage its resources effectively. Banks leverage the large windows in their branches as digital billboards by using LED light strands to promote products and services and for other marketing purposes. They're also ahead in using augmented and virtual reality. About five years ago, at Huishang Bank, we used virtual reality as a way to help educate customers about financial products and services. Those aspects that are pervasive in China could easily be applied here as well. I think that we're going to see more and more of these customer-centric changes and new technologies in North American branches as banks focus more on providing advice.

Terry Badger, CFA, is the managing editor at BAI.

From branch to engagement center

Channel-integrated lobbies can provide a more unified experience for customers and a more effective business model for banks and credit unions.

BY JACKIE HUDSON

The COVID-19 pandemic has presented financial institutions with an unparalleled opportunity to transform branches from walk-in, in-person sales and service locations to customer engagement centers. Banking leaders are being forced to break down organizational silos and reinvent what a branch is.

Banks and credit unions have been struggling with how to use capacity at minimally staffed branches for some time. Then the pandemic caused branch closures, unforeseen changes in customer behavior and a rapid shift to other channels. Branch staff utilization was at an all-time low, while other channels were reaching unprecedented peaks.

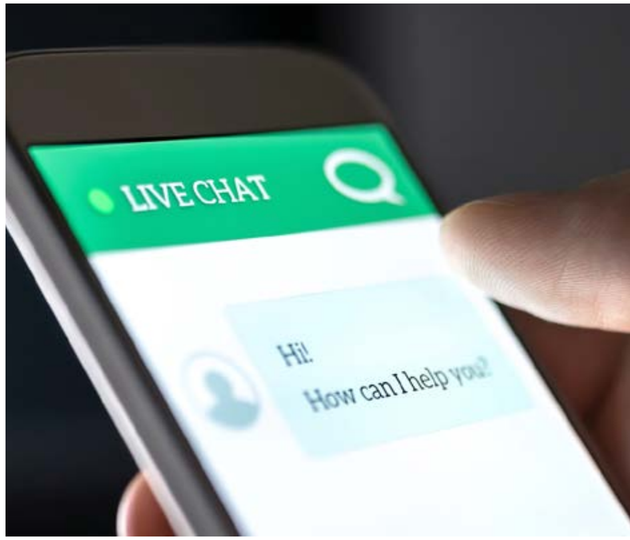
The situation is forcing banking executives to find new ways to match their resources and capacity to customer demand across their enterprise. This is helping to close the engagement capacity gap between the service consumers expect from an institution and the institution's ability to deliver it. Executives also saw a need to continue to leverage the branch to drive greater sales and revenue growth.

In a customer engagement center, employees would engage with customers in multiple ways, including face to face and through video, chat, email, mobile app or outgoing and incoming calls.

A growing number of financial institutions recognize the potential for the branch to be a customer engagement center—a location fully integrated with other channels and touch points to ensure a seamless customer experience.

In a customer engagement center, employees would engage with customers in multiple ways, including face to face and through video, chat, email, mobile app or outgoing and incoming calls. And when not interacting with customers, branch employees would support the work of the back office.

To begin this transformation journey, banks and credit unions will need to update their technology, their processes and the skills of branch employees by focusing on:



- Integrating technology across branch, voice and digital channels.
- Hiring multiskilled, multifaceted employees.
- Deploying tools to monitor employee performance and customer interactions.
- Adopting holistic programs that are focused on the quality and effectiveness of how service is delivered to customers.

Banking institutions will need to invest in infrastructure to ensure the systems used by contact center and digital employees are also available to branch staff. Standardizing telephony and desktop tools should be nearer-term initiatives to support customer interactions across the enterprise.

TRANSFORMING THE BRANCH STAFF

Changing the role of the branch also requires changing the role of employees. To be successful in the new branch customer engagement center, employees will need to:

- Be proficient with different types of customer interactions across different channels, such as voice, digital, chat, email and social media.
- Be able to provide guidance and excellent advice to customers, regardless of where the interaction occurs.
- Serve as great brand ambassadors who can educate customers on digital-channel capabilities and deliver excellent customer service.

> *For employees who serve customers across channels, managers should evaluate their performance in all types of work and interactions they handle. These evaluations will help ensure they are being effective—regardless of channel—and that the customer experience is superior and consistent.*

Developing digitally savvy, multifaceted branch staff requires more investment in training so employees can develop new skills and stay current with the latest enterprise offerings. The diversity and complexity of the tasks branch employees will be expected to perform will require banks and credit unions to leverage technology to ensure success.

Monitoring employee interactions with customers in a customer engagement center—whether on calls or face to face—is just as crucial as monitoring employees in voice and digital channels.

For employees who serve customers across channels, managers should evaluate their performance in all types of work and interactions they handle. These evaluations will help ensure they are being effective—regardless of channel—and that the customer experience is superior and consistent.

To collect the necessary data, institutions will need tools for monitoring and measuring customer interactions and workflows for compliance, quality and sales effectiveness across the enterprise. These tools include call and face-to-face interaction recording, voice analytics driven by artificial intelligence, knowledge management, and desktop and process analytics.

Culturally, banks and credit unions will need to overcome apprehensions about monitoring face-to-face interactions in the same way that they monitor calls, because they can no longer afford to leave a sizable gap in how they manage employees and evaluate the customer experience. It's just too much of a risk.

COLLECTING FEEDBACK FROM CUSTOMERS

Direct and timely customer feedback on specific interactions is critical to transforming the branch into a customer engagement center. Financial institutions will need near-real-time feedback solutions so customers can evaluate their experience right after an interaction and staff can be alerted quickly to correct an adverse situation.

Transforming branches into customer engagement centers helps banking institutions expand their quality programs across the enterprise, ensuring consistency in the way employee performance and customer interaction success are measured.

Using common metrics to look horizontally across the organization will help executives better pinpoint any performance breakdowns and take the appropriate corrective action. Holding employees to common quality standards reinforces a uniform approach to delivering service and paves the way for ultimate flexibility—the ability to allocate resources based upon customer demand, regardless of channel.

Ultimately, the evolution of branches to customer engagement centers provides a more unified experience for customers and a simpler, yet more effective business model for banks and credit unions.

According to a study by PWC, a simplified business model may enable an institution to realize performance enhancements on key customer metrics of 50%, cost reductions of more than 25%, and reduced levels of operational risk. Those results are certainly compelling and should convince any bank to start on this branch transformation journey.

Jackie Hudson is global vice president and general manager, branch workforce solutions, at Verint.

What's the future of in-person banking?

Leveraging customer insights and digital workflow to provide an enriched experience can breathe new life into the branch network.

BY VINCENT CHAMASROUR

Traditional bank branches have been on the decline around the world for years. This has been particularly evident in the United States. Multiple factors are driving this trend, including the COVID-19 pandemic and the rise of fintechs, new payment service providers, super-app platforms, tech giants and other nontraditional players.

Branches can continue to play an important role in the customer journey if they can harness the power of digital technology and workflow to improve the physical banking experience. According to Deloitte, one-third of customers say they [would be more open to using branches] that offered digital capabilities to enhance convenience.

As banks struggle to justify the cost of large branch networks and customers demand seamless experiences where financial services are instant and embedded at the point of need, the question is: What is the future of in-person banking?

Despite the decline in branch density and use, there remain traditionalists who continue to visit the physical location because they prefer that human touch. According to McKinsey & Company, between 30% and 60% of customers still prefer to do [at least some of their banking in-branch].

To meet the needs of the hybrid consumer, Regions Bank developed a new layout combining digital video tellers for simpler transactions, with human interaction provided by trained staff who greet customers and provide a variety of services—including personal finance management—to help customers reach their goals. Video tellers have also been introduced to help bank branches offer extended hours.

Today's consumers want banks to go beyond facilitating transactions—they also want their bank to care about them as people. Merging digital and real-life experiences is a key component in achieving an excellent overall customer experience. Banks will need to embrace digital with a human touch to transition from transactional relationships to digital experiences that create meaningful connections and drive deeper loyalty and more profitable customers.

INNOVATIVE FORM AND FUNCTION

Innovation in branch design can help retain and attract new hybrid consumers. McKinsey estimates that a traditional branch model devotes 70% of floor space to tellers and 30% to self-service, while these percentages are flipped in the smart or digital branch model. Smaller, more streamlined layouts mean lower infrastructure costs.

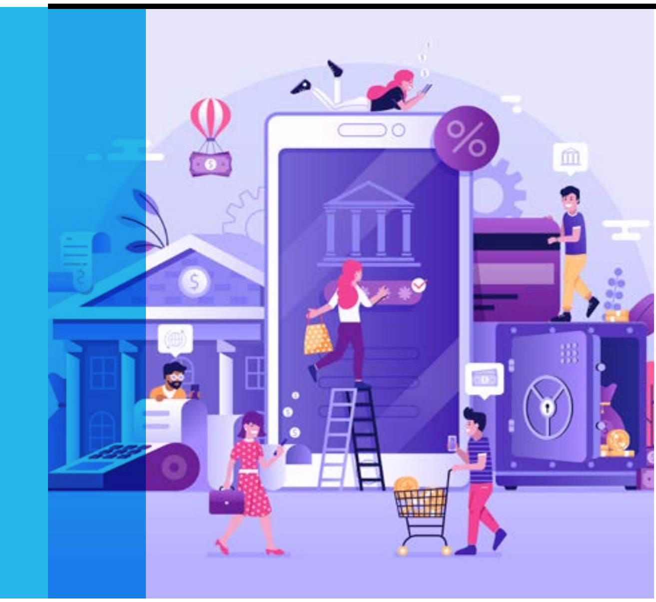
Smart branch layouts have resulted in 60% to 70% improvement in branch effectiveness as measured by cost savings and increased sales, according to McKinsey's research. The new layouts free up space, replacing long teller lines with lounging areas or even full-service coffee bars and workspaces. Smaller layouts also open up wider access to customers in multiple locations.

Branch banking in the digital age means embracing the power of front-to-back digital transformation to augment, personalize and accelerate the in-person experience. Instead of waiting for customers to explain their transaction needs to a teller or personal banker, smart branches direct customers to the best points of interaction (ATMs for withdrawals and deposits, for example, or personal bankers for lending).

Today's consumers want banks to go beyond facilitating transactions—they also want their bank to care about them as people. Merging digital and real-life experiences is a key component in achieving an excellent overall customer experience.

Integrated customer relationship management (CRM) platforms can embed and integrate with digital banking and back-office systems to provide instant customer insights to personalize interactions—for example, providing a view of the customer to facilitate recommendations of lending products. This integration also speeds up account opening and the origination and servicing of new products.

This front-to-back digital transformation and the introduction of artificial intelligence have already started to pave the way for more personalized offers and advice across customers' mobile devices or



via notifications and chatbots. Now banks and credit unions have the opportunity to extend this seamless service across digital and assisted channels.

For example, HSBC's Pepper is a concierge-style humanoid intended to improve customer engagement by educating customers on product information and making self-service available. The bot [determines customers' needs](#) by using AI to ask relevant questions. With a modern and integrated approach, banks can now employ AI to leverage a single view of the customer based on CRM, digital and core banking platform integration and APIs, to augment both self-service and assisted experiences.

CUSTOMERS ARE NOT ALL THE SAME

Not every transaction is digital, and not every customer wants digital transactions. Fully digital banks, such as Varo and Green Dot in the U.S., allow the origination of all their products online, attracting a digitally savvy customer base. Other banks target customers who are more comfortable knowing they can perform transactions in-branch.

Servicing the branch-using segment efficiently is an opportunity for differentiation. Some banks leverage their digital workflows by adopting their mobile look and feel in branches and providing human hosts to guide customers through banking processes. The advantage is that once they do this in the branch, they no longer have to return. Still other banks, such as BMO, use remote video tellers to guide customers through their onboarding or transaction process, integrating smart technology with the human touch.

Banks still face many challenges in striking the right balance between digital and a more human experience in the branch. Traditionalist customers may remain a significant segment of a bank's chosen target market, and more digitally enabled branches promise to enhance the customer journey.

To maximize the potential and to justify the costs, banks need to marry advances in digital transformation with the physical experience. By doing so, branches can remain an important value-add and touch point in the relationship with customers, providing relevant services at the right time.

The secret is to capture the opportunities provided by human engagement by effectively leveraging customer insights and digital workflow to ensure that interactions provide an enriched experience, convenience and more personal service. With this approach, banks can maximize conversion opportunities in-branch and in other channels, breathing new life and purpose into the branch network.

Vincent Chamasrour is strategic business advisor, Americas, at Temenos.

Plugging into hybrid banking

Adding virtual capabilities to the traditional branch network can better cater to customer expectations and save money to boot.

BY KELLY WEAVER

Between the acceleration of digital transformation during COVID-19 and ever-changing consumer behavior, banks and credit unions have been put to the test to keep up. But while there's been significant change in banking channels, what hasn't changed is the need for banking services: Customers still need to deposit checks, open new accounts, get new cards, refinance their homes and more.

Through new digital channels and technology, customers and members have been empowered to access these services on their own terms—when, where and how it's convenient for them. Now, they're looking for hybrid banking experiences that combine digital empowerment and human expertise to satisfy their needs.

What will the end-to-end customer journey look like? In today's world, it will be different for each customer, so there is a lot to consider in meeting these new hybrid needs. While physical branches are being re-imagined, a virtual branch—where customers can get the same dedicated, personalized service they would receive in person—is a great way to customize their unique journeys.

While physical branches are being reimagined, a virtual branch—where customers can get the same dedicated, personalized service they would receive in person—is a great way to customize their unique journeys.

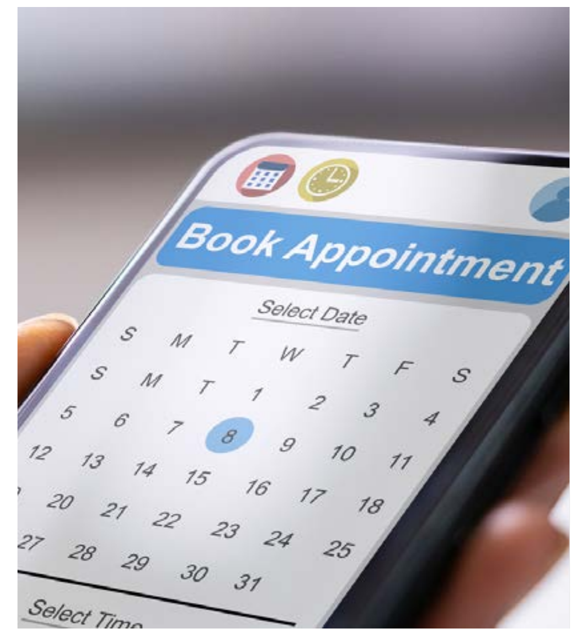
With virtual offerings giving both customers and employees the ability to connect from the convenience of their homes or wherever they choose, the benefits of virtual branches are undeniable.

What key steps should banks take to create virtual branches?

Focus on appointment scheduling: First and foremost, to maximize operational efficiency at a virtual branch, financial services providers need to have an appointment scheduling solution in place. Although many customers want appointments for brick-and-mortar branches, they actually need them for virtual branches because there's no way to simply walk in and talk to someone. A virtual branch will operate most smoothly with an appointment scheduling solution that allows customers to choose a time that is most convenient for them.

For banks that haven't considered investing in appointment scheduling technology yet, now is the time. Among the many impacts of the pandemic, it has served to affirm the quality of an institution's digital infrastructure or expose its shortcomings. The banks and credit unions that invested strategically in technology were better positioned for the COVID-19 disruption, but it's still not too late for laggards to catch up or even surpass their competitors by accelerating their modernization efforts.

A virtual branch and video capabilities can allow banks to exceed customer expectations by operating outside of normal business hours. After-hours availability can significantly increase customer loyalty and



give customers a reason to choose your bank or credit union versus another financial institution.

The best approach is to create a virtual branch where employees and customers are located in the same time zone for easy connection. This makes it seamless for customers and employees to manage their calendars and shift appointments as needed. It might even make sense to create virtual branches by specific locations to give an extra level of personalization and connection.

Reallocate employees for operational efficiency: To provide a seamless experience across all channels, banks and credit unions should focus on increasing employee efficiency to best serve their customers. By creating a virtual branch, or multiple virtual branches, institutions can easily reallocate employees in a way that enables better and easier connections between customers and employees.

With certain financial restrictions and mandates, banks can schedule employee work hours in a way that ensures they are meeting customer needs. For example, during a virtual mortgage appointment, it might be necessary to have two employees on the call during the signing of paperwork.

To serve more customers outside traditional business hours, institutions can work with their employees to determine ideal working hours and provide customers a greater range of hours. If someone wants to do their banking at 6 a.m. or 10 p.m., for example, they can. This virtual setup can also benefit employees, who can take on more appointments, build stronger relationships with their customers, and enjoy a work schedule that best suits their lifestyles.

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Rethink physical branches for cost savings: Implementing a virtual branch can give customers the human interaction and level of service they have come to expect from physical branch locations. This can also create the potential for reducing the number of brick-and-mortar branches, which can yield immediate cost savings on rent and upkeep.

While digital experiences entail costs for technology, IT and security, there is a tremendous opportunity for banks to improve business outcomes. Using a virtual branch strategy, they can analyze which locations are most successful and which are seeing the most traffic, and they use those branches to educate customers on the digital and virtual appointments that are available.

Put members and customers first: When financial institutions instill a customer-led culture, the customer experience is unparalleled. Customers and members need to be the top priority for banks and credit unions when creating a virtual branch strategy. Humanizing engagements, providing top-level service and establishing that indispensable trust factor start with the relationships that employees build with customers. From a virtual appointment standpoint, it means providing a frictionless yet engaging experience.

One of the nation's largest banks leveraged virtual branch appointments to cut its appointment times in half. This means that customers are getting the same level of service via a virtual appointment in half the time—not only empowering them to bank where it's most convenient but also making everything more efficient.

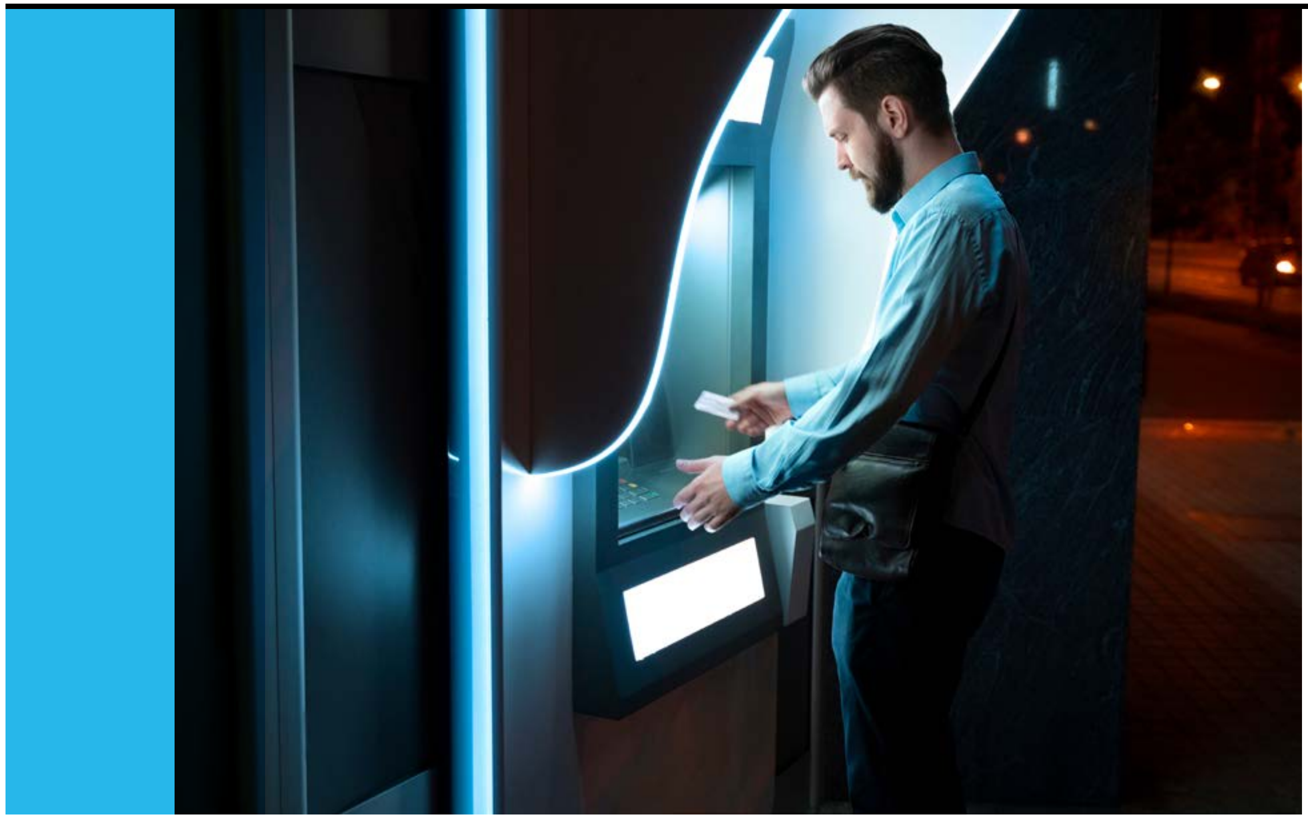
Hybrid banking will outlast the pandemic and is likely to become a permanent fixture in the years to come. And technology that bolsters consumer engagement and trust will continue to play an essential role in helping banks to sustain and supplement the customer experience now and well into the future.

Kelly Weaver is vice president of product at JRNI.

Banking as an on-demand experience

A surcharge-free ATM network offers value to account holders and helps financial services providers respond to competitive market pressures.

BY STEVE NOGALO



An emerging ecosystem of digital and physical channels is an opportunity for banks to reach customers not just around the corner but around the country. This doesn't mean mature service channels are going to be left behind—a surcharge-free ATM network can allow any bank to put its brand in front of account holders where they live, work and play.

According to a recent national survey, three-quarters of consumers say they'll do anything to avoid paying an ATM surcharge fee, and more than half say they actively seek out ATMs in a surcharge-free network. Fintechs and neobanks understand this and are rapidly adopting surcharge-free ATM networks as their physical bank "branch" of choice. This strong demand for remote banking services evolved out of consumers' expectations that banking should be fast, easy and on their schedule, without the friction and limitations of going into a branch lobby.

Surcharge-free ATM networks give consumers tens of thousands of banking access points in high-traffic locations all over the country—including supermarkets, pharmacies, college campuses and convenience stores—on a 24/7 basis. Bank-branded ATMs, which customize third-party-managed kiosks with the partner banks' physical and digital brand assets, provide surcharge-free cash delivery in strategic new-entry and competitive markets.

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Placing these services in an on-demand environment is the kind of experience consumers now expect from banks—particularly today, when competitors are rapidly leveraging surcharge-free networks on a national scale. Integrating a surcharge-free ATM network into your retail banking footprint not only responds to market pressures but, more importantly, delivers real value to account holders.

For example, consider the members of a modern household juggling work and family. Between back-to-back Zoom calls, walking the dog, picking up the kids from school and getting them to soccer, people have little time to grab lunch, let alone make it to the bank branch where they may face reduced hours and long lines.

Instead, imagine that branch folded into a full-function, surcharge-free financial kiosk available virtually any time of the day or night, including during the 11 p.m. dash to the store for a pint of chocolate ice cream. Completing banking tasks at the time and place of the customer's choosing becomes a value-added service differentiator that deepens brand loyalty.

OMNICHANNEL PROMOTES ENGAGEMENT

Getting cash and making deposits are mainstay services of ATMs, but increasingly these devices are becoming true "automated teller" machines. The leading surcharge-free ATM networks are incorporating service extensions, such as the ability to check balances, get statement copies, make account transfers and pay bills. Next-generation capabilities, such as cardless access and crypto transactions, are on the horizon.

These capabilities make the ATM channel a fully realized component of digital banking—the physical

counterpart to mobile and online, customer-led banking. The digitalization of physical banking, decoupled from a limited number of physical bank locations, breaks down branch walls, giving consumers a truly omnichannel banking experience that can support the continued growth and maintenance of a bank's customer base.

As consumers' use of self-service channels increases, brand engagement becomes even more critical. In its 2013 retail banking study, J.D. Power found that banks that improve customer commitment levels among self-service customers see an overall increase in net revenue. According to that report, converting even small percentages of low- and medium-commitment customers to high-commitment customers can pay off nicely in the form of higher interest revenue from greater deposits, investments, and loans.

To effectively leverage these new dynamics, retail banks must consider what's most important when selecting a surcharge-free network partner to improve customer experience and service. Some of the things banks should prioritize include access to trusted retail brands in locations relevant to customers; an installed base of modern, reliable and secure ATMs; the ability to brand devices with the same look and feel of those located on-site coupled with on-screen branding of the entire transaction set; and the market expertise required to deliver services consistent with the promises being made to consumers.

Banking customers have come to expect access to a range of self-service channels. Banks fail to address these growing expectations at their own peril. Today's customers can create their own personal Main Street, where service providers are open 24/7 and free from geographic constraints. These customers expect services to be integrated across all channels and are critical of piecemeal solutions.

At the same time, banks need greater efficiencies and better brand awareness. The branch of the future is an omnichannel ecosystem in which customers access banking services on their own time and in the manner best suited to them.

We are in an exciting period of banking innovation—one in which banks are becoming truly customer-centric, striving to eliminate service friction and focusing on building long-lasting, valuable relationships. Adding a robust, global, surcharge-free ATM network to this ecosystem checks many of these innovation boxes and provides real value to customers and banks alike.

Steve Nogalo is executive vice president for North America financial institutions at NCR.

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