

New Adventures in **BRANCH BANKING**

More banks are thinking about not just how to redesign their branches, but how to redesign their entire branch experience. BY MATTHEW DE PAULA

The effort Extraco Banks puts into hiring branch staff is hard to believe. Those who apply to be a teller go through up to nine interviews with managers, peers and subordinates. On top of that, the prospective employees must provide 15 references, all of which get methodically checked.

"I'm glad I already work here. I probably wouldn't get hired," jokes Sandra Dixon, executive vice president in charge of operations at the \$1.1 billion-asset bank in Temple, Texas.

This rigorous selection process for what used to be considered one of the lowliest positions in all of banking clearly illustrates how much things have changed. Frontline staff are becoming the stars.

Though bankers and industry consultants started preaching this long ago, it mostly amounted to so much lip service. Few executed well or even tried to.

But after years of experimentation with their branches, some banks are finally finding the right mix of technology, ambiance and human interaction. The most effective formula varies, not only from one company to another, but from one branch to the next within the same company.

The only constant in the charge to revolutionize branch banking is that there are no absolutes. Everything is subject to being scrutinized and reworked.

LIKE A BEEHIVE

As more people opt to do their banking online, some companies are working on ways to make the experience at the branch feel more social—to transform a dreaded chore into a visit to be enjoyed.

The percentage of consumers who favor the Internet as their primary venue for transacting grew from 45 percent in 2009 to 51 percent last year, according to the Retail Banking Satisfaction Survey conducted by J.D. Power and Associates, a research firm in Westlake Village, Calif. Those who prefer using a branch dropped from 36 percent to 29 percent over that same period.

This is precisely why Extraco has focused on changing the human interaction at its 15 branches using a technique it pat-

ented, called "swarm." As the name implies, the concept brings tellers out from behind the line to mingle with customers. "Our employees are out there swarming in the lobby," Dixon says.

They walk around with earpieces like Secret Service agents. The devices are not about looking cool, but helping them communicate with one another. They might, for example, call over a manager to sign a loan on the spot.

Extraco's swarmers are empowered to offer loans up to \$100,000 to qualified customers, which makes them part teller and part platform banker.

It takes training to swarm correctly—16 weeks to be precise, broken into three phases. It also takes a special type of person—one that is happy, fun and enjoys change. "If you get stuck with people that are not change-oriented, you'll never make any progress," Dixon says.

The success of swarming is closely entwined with Extraco's branch layout and technology. There's no traditional teller line. An open floor plan features free-standing work stations with cash recyclers—machines that take and dispense money, and replace a teller's cash drawer. These stations also have scanners that instantly convert checks into electronic images. If someone wants to make a deposit or withdrawal, a swarmer just brings the person over to a station. The technology is expensive, but a huge time-saver that frees up staff to talk with customers and so is well worth it, Dixon says.

In hiring, Extraco favors those with college degrees working on the frontline, and pays them more than the typical teller, which it can afford to do after having reduced the number of workers per branch by up to three full-time equivalents. Turnover has plummeted from 60 percent pre-swarm "down into the teens," Dixon says. "And oh my gosh, it's a fun group."

Everyone is on a flexible full-time schedule. Their hours and assigned branch locations are based on foot traffic predicted by software from Financial Management Solutions that looks at past transaction volumes. Call center employees are trained to swarm and fill in at branches too. But Extraco makes an effort not to move people around too much. "Customers like to see the same faces," Dixon says.

Extraco has started teaching other banks how to swarm and recently completed its first half-day training session.

Arriving at its current branch strategy took years, starting with an initial stab at a new branch layout in 2004. But only after installing the imaging technology at teller stations two years later did it see the true potential for improving the branch experience for customers, Dixon says. Adding cash recyclers in 2008 prompted another rethinking of the layout, which led to replacing the usual row of tellers with the free-standing work stations. The swarming began in 2009.

One lesson the bank learned while honing its technique was that a concierge desk—part of many branch redesigns industry-wide—was not a good fit. All it took was one customer with a time-intensive query to keep the branch from achieving its goal of greeting everyone within several seconds of walking through the door. That holds true for other banks as well.

“Whether it’s a greeting station or an assigned individual, the problem is they’ll get tied up with somebody,” says Michael Beird, director of banking services at J.D. Power. “Then five more customers come in who didn’t get greeted, and everybody else in the branch is going, ‘Well, that’s not my job.’”

A simple “hello” does mean a lot. J.D. Power research shows that customers who were greeted upon entering a branch and waited 11 or more minutes to be helped were nearly as satisfied with the overall experience—rating it a 724 out of 1,000 points—as those who didn’t wait at all but who were not acknowledged when they walked in—728 out of 1,000.

“We all think if a customer doesn’t wait at all, that’s the pinnacle of satisfaction,” Beird says. “The reality is, if you’re not acknowledged, even if you don’t wait at all, it doesn’t guarantee you’re going to get the highest level of satisfaction.”

THE NEW EXPERTS

Webster Bank in Waterbury, Conn., is in the midst of changing its branch strategy, but less dramatically than Extraco. It is not opting to do a major branch redesign or install a lot of new technology—though it is doing both at a moderate pace. Part of that is due to the fact that the \$18 billion-asset bank has 180 branches.

But like Extraco, Webster is making people the centerpiece of its new strategy. The bank recently hired a consultant to gauge tellers’ competency and comfort level with tasks beyond those typical for the job. The goal is to have them diagnosing customers’ financial needs and offering solutions.

“We’ve designed some programs to address the competency levels and also the comfort level,” says Anne Slattery, executive vice president of retail banking. “And, in fact, we will be introducing certification programs as we go forward.” Initially, the focus is on training branch managers to become experts in small business, because that customer segment is a priority. But the training will expand to include other branch employees.

Sterling Savings Bank in Spokane, Wash., also has trained



Extraco did away the traditional row of teller stations in favor of free-standing ones throughout the room. A “swarm” of personal bankers patrolling the floor bring customers over to get service.

managers at its 178 branches to basically be small-business bankers who proactively drum up new business. Early on in the initiative, Sterling brought in sales consultants to go out on calls with the branch managers and coach them.

“We didn’t just teach people and throw them out to the wolves,” says Brian Read, retail banking executive at the \$9.5 billion-asset bank.

As an indicator of success, he says overall checking accounts grew 18 percent in 2009, the first year of the program.

Sterling’s tellers remain primarily in a traditional role, doing basic transactions. But the bank is training them to handle some sales functions, like opening new accounts. They also get coached to keep an eye out for opportunities to offer other products and services.

An important lesson Sterling has learned as it expands the role of tellers is how to create effective incentives for cross-selling. The current approach is to give tellers extra pay for simply bringing a customer over to a platform banker to discuss a need they recognized while chatting during a routine transaction.

“It’s not contingent on their necessarily closing business,” Read says. “And that seems to be really working well. I think in the past, where everything was contingent on some piece of business being closed, that can cause some adverse impacts on people’s willingness to keep trying.”

Teller turnover has been cut in half from a rate of 40 percent four years ago. Incentive plans that feel achievable, more recognition for good work, and clearer career paths—thanks to cross-training on the platform side—have helped immensely, says Debbie Meekins, Sterling’s chief production officer.

A POSITIVE CUSTOMER EXPERIENCE

Frost Bank in San Antonio, Texas, is 10 years into a branch strategy that is all about treating customers like royalty. “We open the

door for them, and then we greet them,” says Paul Olivier, executive vice president of consumer banking.

By all measures, its strategy seems to be working. It is the highest-scoring bank nationwide in terms of customer satisfaction, says J.D. Power’s Beird. “And it has the second highest incidence rate on maintenance fees, so it’s not like they’re giving it away for free.”

Some industry observers point to Frost as evidence that customers are willing to pay for the right experience—a philosophy Olivier himself shares. “We give a square deal, excellence at a fair price,” he says.

Of Frost’s 112 branches, 22 are of an entirely new design, with an open floor plan, concierge desk, and a special “Frost Room,” lined with smooth stone from floor to 18-foot ceiling. This customer lounge area is made to feel like an old bank on courthouse square, Olivier says. Some branches also include specially commissioned folk art portraying real cowboys and cowgirls that work the ranches in Texas.

Extravagance is certainly not a requirement in modern branch design, but it’s a given that the look and feel of the space contrib-

utes a lot to the customer experience. Appearance alone accounts for almost half of customers’ satisfaction with branch facilities, according to J.D. Power data.

“Invest some money in a fresh coat of paint, replace the carpeting, whatever it takes,” Beird says. “And that’s a lot cheaper than building a new branch.”

Having a coffee lounge or kid’s play area—or doing something else out of the ordinary, like offering the bank’s own brand of bottled water, as Extraco does in its branches—isn’t the must it might have seemed in the industry not so long ago. It’s possible to over-invest in such extras and see no return in terms of added business, says Bob Meara, a senior analyst at the Boston research and consulting firm Celent.

That’s why figuring out what each market needs is key. For example, branches in downtown areas might be suited to having a lounge if they are a destination people visit on foot. Not so with suburban branches that customers drive to.

To assess whether the sizes and locations of its branches were right for the markets it serves, Webster devised a sophisticated algorithm that takes into account how customers use a particular

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branch and whether they use others as well. The analysis also factors in many details about the market, how much of the local deposits the branch holds, and the number of competitors it has.

“Because we go from Westchester, N.Y., to Boston, Mass., we have urban, suburban and rural branches, so each of them has to be looked at differently, because customers behave differently,” Slattery says.

Webster is closing five of its branches in April and downsizing others, renting out the extra space where possible. To prepare for the shrinkage, the bank extended hours at more than half of its branches last year and started operating its call center seven days a week.

Both Webster and Sterling are in the early stages of figuring how—or whether—to restructure the physical layout of their branches.

GOING HIGH-TECH

As far as adding technology to automate branch transactions, Webster has started to install cash recyclers, but not every branch has one yet. It has also been phasing in check-imaging technology to streamline deposits. But rather than put multiple machines in every branch, as Extraco does with its free-standing work stations, Webster mostly uses a single one behind the teller counter. “We’ve tried it both ways,” Slattery says. “We’ve experimented for over a year, actually, and because of the structure of our branches and our customer flow, that’s the path we’ve chosen to take.”

While Slattery is concerned that scanning in checks as the customer is standing there could detract from the interaction and lead to more errors, Extraco’s Dixon says that the Vertex Teller Capture machines it uses are so efficient that they actually make it easier to engage customers.

Some Extraco branches have a modified teller line—where, in Dixon’s words, the company has “cut into the sacred granite countertop” to create open work stations, instead of installing new ones in the middle of the floor as done in other locations. This floorplan allows two employees to share one check-imaging device, which is so accurate and speedy they can serve both customers inside the branch and in the drive-through lanes. That’s how the bank was able to reduce staff count at its branches.

Extraco no longer has large windows overlooking the drive-through areas, and it removed the work stations behind them. It now has huge video monitors where the windows once were, to display product information. Customers see the person who is



Extraco’s Sandra Dixon says technology like advanced function ATMs can be expensive, but quickly attract customers’ use.

helping them on a smaller video monitor in their drive-up lane.

One of Extraco’s drive-through lanes at each branch is served by an advanced function automated teller machine, which Celent’s Meara says have been less of a hit for many banks because they didn’t instruct customers how to use them. Much like everything it does, Extraco created fanfare around the 10 new advanced NCR machines it installed in December. The bank trademarked the term “iTM”—intelligent teller machine—and wrapped each one in flashy graphics that explained to customers what they’re all about. Large ground decals in front of branch entrances do the same.

These advanced ATMs, which accept deposits of both cash and checks without envelopes, have been instrumental in helping offset the burden of drive-in activity from branch staff, Dixon says. And they create a better customer experience, a key to making any new technology work. The average drive-in transaction handled by someone in the branch takes about three minutes, while the average iTM transaction takes less than a minute. “Man, they gravitated to those machines faster than we thought they would,” Dixon says. Over President’s Day weekend alone, the bank took in \$100,000 in deposits through 10 iTMs. The largest check deposited at an iTM to date was for \$87,000. The bank is installing 10 more machines.

Other areas where technology is helping improve the customer experience at Extraco is with remote deposit capture, which its commercial clients have taken to more so than retail customers. Video phones in branches that connect customers to one of the bank’s two, soon to be three, call centers are proving a good solution for handling time-consuming customer-service issues, such as those involving card fraud. They free up branch staff to focus on cross-selling and customers enjoy the experience. “A lot of times they’ll come in and they’ll go straight there now,” Dixon says. The video phones also connect customers at smaller branches with loan officers and other experts that might not be on location.

Extraco has been more aggressive than most in adopting new technology in so many aspects of the branch, says Celent’s Meara. “The change has been rather dramatic and expensive.”

Key to making it all work, Dixon readily admits, is the attitude of the people swarming the customer, as well as those behind the scenes. “When people come into your lobbies they’re coming in for a specific reason, and they want to see a person,” Dixon says. “So we make sure we have the right people at the right time there, first and foremost.”