Branch Transformation: Strategies to Position Your Branch Network for the Future

IBAT TechMecca

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AGENDA

• Consumer Channel Usage Behavior
• Future Role of the Branch
• Innovations in Retail Banking
Consumer Channel Usage Behavior
U.S. Self-Service Banking Transactions
2009 - 2013

Source: TowerGroup
U.S. Branch Transactions
2010 - 2014

CAGR = -2.6%

Source: TowerGroup
Question: How do you prefer to conduct the following banking activities?

**Transfer Funds**
- Online banking: 72%
- Branch: 19%
- Phone: 4%
- ATM: 3%
- Mobile: 2%

**Balance Inquiry**
- Online banking: 72%
- Branch: 9%
- Phone: 8%
- ATM: 5%
- Mobile: 5%

**Pay Bills**
- Online banking: 67%
- Branch: 25%
- Mail: 5%

Note: Phone includes both IVR and call center rep; percentages may not round to 100% as lower incidence categories omitted from the chart.
Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally.
Percentage of respondents indicating they visited a branch in the prior 3 month period:

- Gen Z (18-22): 80%
- Gen Y (23-31): 81%
- Gen X (32-45): 81%
- Younger Boomers (46-55): 88%
- Older Boomers (56-66): 89%
- Golden Generation (67+): 91%

Source: Forrester Omnibus/ Diebold June 2011; sample size = 5,219 consumers
Question: How do you prefer to conduct the following banking activities?

**Cash Withdrawal**
- ATM: 67%
- Branch: 32%

**Deposit Checks / Cash**
- Branch: 66%
- ATM: 25%
- Online banking: 5%

Note: Percentages may not round to 100% as lower incidence categories are omitted from the chart.
Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally
Question: In the past 3 months, which of the following did you perform at an ATM?

- Depositing a Check
- Depositing Cash

Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally
Question: How do you prefer to conduct the following banking activities?

Resolve a Problem

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Branch</td>
<td>53%</td>
</tr>
<tr>
<td>Phone</td>
<td>33%</td>
</tr>
<tr>
<td>Online banking</td>
<td>12%</td>
</tr>
</tbody>
</table>

Note: Phone includes both IVR and call center rep; percentages may not round to 100% as lower incidence categories omitted from the chart.
Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally.
Question: How do you prefer to conduct the following banking activities?

**Get Product Information**

- Online banking: 59%
- Branch: 26%
- Phone: 7%
- Mail: 5%
- Mobile: 3%

**Open a Deposit Account**

- Branch: 80%
- Online banking: 17%
- Phone: 2%

**Apply for a Loan**

- Branch: 75%
- Online banking: 21%
- Phone: 3%

Note: Phone includes both IVR and call center rep; percentages may not round to 100% as lower incidence categories omitted from the chart.

Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally.
Preference to Purchase Financial Products and Services (% Total)

- **Gen Z (18-22)**
  - Branch: 81%
  - Online: 14%
  - Phone: 3%
  - Mobile: 1%

- **Gen Y (23-31)**
  - Branch: 72%
  - Online: 24%
  - Phone: 3%

- **Gen X (32-45)**
  - Branch: 74%
  - Online: 21%
  - Phone: 3%

- **Younger Boomers (46-55)**
  - Branch: 85%
  - Online: 13%
  - Phone: 1%

- **Older Boomers (56-66)**
  - Branch: 87%
  - Online: 11%
  - Phone: 1%

- **Golden Generation (67+)**
  - Branch: 90%
  - Online: 8%
  - Phone: 1%

*Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally*
Question: How important are the following factors in choosing a bank?

Percentage of respondents indicating “Very Important” or “Important”

Source: Forrester/Diebold research, 3rd Quarter 2011; sample size = 10,038 respondents nationally
Future Role of the Branch
Future Role of the Branch

New Branch Role

- Sales & advice
- Customer service and problem resolution
- Handling of more complex transactions
- Right-sized and efficient operation
- Brand presence in local community
Components

- De novo branches
- Branch relocations and closings
- Branch transformations / remodels
- ATM network optimization
- New technology implementation (i.e., deposit automation)
- Expanded channel functionality
Facility Design

• Smaller footprint
• Greater emphasis on sales rather than transactional capabilities
• Portfolio of different designs to match market opportunities

Customer Experience

• Higher level of customer engagement with the branch staff
• More educational and consultative
• Customers encouraged to browse
Branch of the Future Components

BRANCH CHANNELS / COMPONENTS

1. VIDEO CONFERENCING: Customer can be directed to remote experts.

2. INTERACTIVE MARKETING: Touch screen (or traditional LCD) incorporated into a customer friendly engaging space which allows customers to learn about products and services.

3. TELLER ASSISTS DEVICES: An ATM-like device located in the attended transaction area that a customer can choose to use for routine low value transactions. Floating attendants can help/train a customer (similar to airlines model) on how to use with an eye toward migrating transaction to complete self-service.

4. UNIVERSAL TELLER: Teller station with return desk allowing more complex transactions/interactions to take place with more privacy and comfort.

5. SURFACE COMPUTING: Use of surface computers to educate/sell to customers.

6. ELECTRONIC WALL: Multiple devices (some single function) arranged in 24 hour accessible area.

7. REMOTE TELLER ENABLED ATMS: Allowing the customer to talk to and see a customer service rep for transaction help.

8. SMART QUEUING: The use of customer identification technology to dynamically assign customer service order and direct them to the most appropriate resource for their visit.

9. SALES: Sales people repositioned in non-personalized offices

10. PLATFORM SALES OFFICES

11. DRIVE-THROUGH: Current trends include:
   1. Abandoning line of sight transaction drawers. This allows self-service devices and night depositories to be placed in the first lane and allows tellers to handle both lobby and drive-through transactions which then leads to use of secure wireless communication to further enhance the flexibility of the tellers and the privacy for the customer.
   2. Tandem drive-through which allow double stacking of the VAT.
   3. Queue management utilizing the ordering of call button requests, as well as the order of carrier arrival.
Concierge Station
Customer Waiting Areas
Platform Sales Office

BRANCH CHANNELS / COMPONENTS

PLATFORM SALES OFFICES: Common (unassigned) offices can be used to meet with customers. Half round table encourages a consultative dialogue vs. a sales pitch. Space can accommodate a larger group and screen is positioned so all participants have a clear view of details. Video conferencing tie in can be used to link in remote experts as required.

TELLER ASSISTS DEVICES: An ATM like device located in the attended transaction area that a customer can choose to use for routine low value transaction. Floating attendant can help/train a customer (similar to airlines model) on how to use with an eye toward migrating transaction to complete self-service.

UNIVERSAL TELLER: Teller station with return desk allowing more complex transaction/interactions to take place with more privacy and comfort.

SMART QUEUING: The use of customer identification technology to dynamically assign customer service order and direct them to the most appropriate resource for their visit.

REMOTE TELLER ENABLED ATMS: Allowing the customer to talk to and see a customer service rep for transaction help.

ELECTRONIC WALL: Multiple devices (some single function) arranged in 24 hour accessible area.

SURFACE COMPUTING: Use of surface computers to educate/sell to customers.

DRIVE-THROUGH: Current trends include:
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2. Tandem drive through which allow double stacking of the VAT.
3. Queue management utilizing the ordering of call button requests, as well as the order of arrival.
Video Conferencing

BRANCH CHANNELS / COMPONENTS

1. VIDEO CONFERENCING: Customer can be directed to remote experts.

ILLUSTRATIVE

SMART QUEUING: The use of customer identification technology to dynamically assign customer service order and direct them to the most appropriate resource for their visit.

REMOTE TELLER ENABLED ATMS: Allowing the customer to talk to and see a customer service rep for transaction help.

ELECTRONIC WALL: Multiple devices (some single function) arranged in 14 hour accessible area.

SURFACE COMPUTING: Use of surface computers to educate/assist customers.

DRIVE-THROUGH: Current trends include:

1. Abandoning line of sight transaction drawers. This allows self-service devices and night depositories to be placed in the first lane and allows tellers to handle both lobby and drive-through transactions — which then leads to use of secure wireless communication to further enhance the flexibility of the tellers and the privacy for the consumer.

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**Dimension**

- **Technology Integration**
- **Merchandising**

**Implications**

- Migration of routine transactions to lower-cost channels
- Automation of branch processes
- Leverage technology to improve the customer experience

- Focus on customer ‘life events’
- Digital merchandising – higher effectiveness and recall
- Interactive media – tailor information to customer needs
Key Questions

- What policies and procedures need to be modified to support the new technology?
- What steps need to be taken to ensure new technology integrates with existing systems?
- How do we prepare employees so that they can fully support the introduction of new technology?
- How do we motivate our customers to use new technologies?
- How do we measure success?
- What impact did the new technology have on customer behavior?
Interactive Marketing

BRANCH CHANNELS / COMPONENTS

1. VIDEO CONFERENCING: Customer can be directed to remote experts.

2. INTERACTIVE MARKETING: Touch screen (or traditional LCD) incorporated into a customer friendly engaging space which allows customers to learn about products and services.

3. TELLER CONVERSATION: Transactions, airline, retail, etc.

4. SELF-SERVICE: Transactional, self-sourcing, and automated

5. ELECTRONIC WALL: Multiple devices (some single function) arranged in 24 hour accessible area.

6. SPACE COMPUTING: Use of surface computers by customers.

7. REMOTE TELLER ENABLED ATMS: Allowing the customer to talk to and see a customer service rep for transaction help.

8. SMART QUEUING: The use of customer identification technology to dynamically assign customer service order and direct them to the most appropriate resource for their visit.

9. SALES: Sales people repositioned in non-personalized offices

10. PLATFORM SALES OFFICES
### Implications

- ‘Universal banker’ concept – skilled in meeting sales and service needs
- Hiring for sales and customer service aptitude
- Training support to build product knowledge and consultative skills

- Deepen understanding of customer channel usage and preferences
- CRM with customer product holdings and interactions across channels
- ‘Predictive analytics’ tools facilitating personalized offers
## Customer Channel Usage

<table>
<thead>
<tr>
<th>Self-Service Classification</th>
<th>Channel Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attended Dependent</td>
<td>100% Attended</td>
</tr>
<tr>
<td>Attended Preferred</td>
<td>75-99% Attended</td>
</tr>
<tr>
<td>Mixed</td>
<td>26-75% Self-Service</td>
</tr>
<tr>
<td>Self-Service Preferred</td>
<td>76-99% Self-Service</td>
</tr>
<tr>
<td>Pure Self-Service</td>
<td>100% Self-Service</td>
</tr>
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</table>
Customer Channel Usage

Use of Channel: Percent of Total*

*Active customers only

<table>
<thead>
<tr>
<th>Use of Channel</th>
<th>Percent of Total</th>
<th>Average Deposits per Customer</th>
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<tbody>
<tr>
<td>Attended Dependent</td>
<td>38.4</td>
<td>21,597</td>
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<tr>
<td>Attended Preferred</td>
<td>7.1</td>
<td>9,924</td>
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<tr>
<td>Mixed</td>
<td>28.5</td>
<td>9,038</td>
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<tr>
<td>Self-Service Preferred</td>
<td>14.3</td>
<td>9,195</td>
</tr>
<tr>
<td>Pure Self-Service</td>
<td>11.7</td>
<td>8,446</td>
</tr>
<tr>
<td>Total</td>
<td>13,875</td>
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Source: Diebold Consulting analysis
Innovations in Retail Banking
Branch Transformation Initiatives

Self-Service Technology

High

Low

Deposit Automation

Cash Recyclers / Dispensers

Teller Pods

‘Express Branch’

Dexia

Umpqua Bank

Branch Redesign

Low

High
Cash Recyclers

Illustrative Impact

• Ninety-nine Diebold ECRs installed at 47 branches at a regional bank in the Northeast

• Impact on efficiency and cost savings
  – Reduced cash transaction times by 37%
  – Reduced teller cash levels by 60%
  – Decreased daily vault buys and sells by more than 50%

• Improved customer experience by increasing teller ‘heads up’ time

• Other expense impacts
  – Reduced teller errors
  – Reduced counterfeit losses
  – Fewer cash orders
Deposit Automation Installations

• More than 40,000 deposit automation terminals deployed nationwide
  – Projected to grow 20% annually through 2013
• One top 5 bank recently reported that 50% of its consumer deposit transactions are now conducted at the ATM

Benefits

• Lower courier costs for off-premise ATMs
• Reduced costs associated with processing envelope deposits
• Lower fraud losses due to elimination of empty envelope fraud
• Reduced supply expenses
• Faster fraud identification
• Potential teller FTE savings due to transaction migration
‘Teller Pod’ Branches

- Freestanding towers in an open branch design
- Teller cash recycler for cash transactions
  - Eliminates the need for a vault
- May have other self-service devices
  - Self-service coin counter
  - Phone kiosk to the call center
- Staffed by either ‘universal bankers’ or tellers

“Dialogue Tower”

Critical Success Factors

- Management commitment to a new retail banking strategy
- Hiring staff with the right skill set
- Sales and service training
- Well-orchestrated customer experience ‘choreography’
- Removal of operational tasks out of the branch
‘Express Branch’

- Large self-service lobby space with as many as 12 self-service devices
  - Cash-in deposit units
  - Check deposit units
  - Cash withdrawal ATMs
  - Online banking stations
  - Bill payment kiosks
  - Telephone banking station
- Branch staffed by a concierge who educates customers on self-service devices
  - Customers have to ‘run the gauntlet’ to get to the teller window
- Small teller area (2-3 stations)
- Premier banking office for affluent clients
  - Self-contained area with its own sales and teller staff
Umpqua Bank

- $11.8 billion in assets
- 182 stores in OR, CA, WA and NV
- $1.5 billion market cap
- Ranked #1 in customer satisfaction in the Northwest by JD Power

New Branch Prototype

Store Design Elements

- Smaller footprint
  - Latest prototype is 1,500-2,000 sq. ft
  - One-third the cost of a traditional branch
- Designed to encourage customers to browse and spend time in the store
  - Internet Café
- Space dedicated to promoting products of business customers
- Displays with Umpqua merchandise

Pearl District Store (Portland)

Umpqua’s new stores typically have a payback period of 18 months
Store Design Elements

- Open space in the branch that can be used for seminars and local community meetings
  - “Movie night” in the branch lobby
  - Wii bowling leagues
- Some stores have videoconferencing capabilities
- Discovery Wall with touch screen display that enables customers to obtain product information and use financial tools

“Ask An Expert” Videoconferencing
Community Outreach

Caja Navarra (CAN) in Madrid has positioned its new branch prototype as a ‘cancha’, or public square, that customers and others in the community can use for presentations, seminars or other events

- Space has been used for hundreds of different activities network-wide (everything from art exhibitions, to fashion shows, to wine tasting events)

CAN also contributes a percentage of the profits it makes per customer to local charities

- Customers can determine how they want these funds allocated to different charitable organizations
Dexia Bank

• More than 1,400 branches in Belgium, Luxembourg, Slovakia and Turkey

Open Branch Concept

• All cash transactions handled by ATMs
• Three zones within the branch
  – Zone 1: Self-service area
  – Zone 2: General customer service
  – Zone 3: Branch staff advisory / sales
• Recycling ATM technology used to manage costs of handling cash and minimize cash-in-transit visits
Key Takeaways
Questions to Address

- What channel capabilities are most important to our customers today and in the future?
- How do we prioritize investments across channels?
- How do we maximize the return on new technology?

- How can we operate our branches more efficiently and at a lower operating cost?
- How do we increase sales productivity in our branches?

- What capabilities are required to deliver our target customer experience?
- How do we ensure consistency of the experience across channels?
### Diebold Consulting – Scope of Expertise

<table>
<thead>
<tr>
<th>Areas of Focus</th>
<th>Expense Management / Operational Efficiency</th>
<th>Channel Optimization</th>
<th>Customer Experience</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Workflow optimization</td>
<td>• Channel management strategy</td>
<td>• Customer experience strategy</td>
<td>• Customer-centric innovation</td>
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<tr>
<td></td>
<td>• Transaction migration</td>
<td>• Branch optimization</td>
<td>• Payments migration</td>
<td>• Product/fee packaging and pricing</td>
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<td></td>
<td>• Deposit automation</td>
<td>• ATM optimization</td>
<td>• Process improvement</td>
<td>• Analytic-driven promotions</td>
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<tr>
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<td>• Teller automation</td>
<td>• Market assessment</td>
<td>– Account opening</td>
<td>• Payment/channel-driving innovations</td>
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<td>• Employee/customer engagement</td>
<td>• Customer segmentation and channel usage</td>
<td>– Problem resolution</td>
<td>• Product line analysis</td>
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<tr>
<td></td>
<td>• Sales/service models</td>
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Questions?

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