Branch Banking II

Case studies for the next generation

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December 2012

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EXECUTIVE SUMMARY

The strategic objective

The overall objective for retail bankers is to create branches that customers want to come to – and then build profitable relationships with these customers. This report examines what banks are doing with their retail branches through three sections, namely:

- A set of case studies covering a broad range of innovative branch developments illustrating best practice.
- A set of case studies analysing branches where all or part of their retail format is dedicated to a specific segment of the institution's customer base.
- A set of chapters that provide guidance on best practice in developing and sustaining profitable branch networks, including in-store operations. This section also includes a chapter discussing best practice in the deployment of self-service at the branch.

Section A: Wide ranging branch innovation

The longstanding commitment to the development of cutting edge branches has characterised the work of Barclays and ING Group over the last three decades. Many of the elements first developed for the Barclays flagship concept launched in 2008 are now rolling out across its network. In the case of ING, the development of both lite and self-service branches (with minimal staff) is integral to a major global realignment of the group's retail banking activities. They are also a reflection of the extensive investment made by the group in new retail concepts since its inception in the early 1990s.

ICICI Bank is a leading innovator in the challenging Indian retail banking market. The bank's latest electronic branch initiative provides another example of how self-service can be deployed to support a completely customer activated branch.

The chapters covering the work of Jyske Bank and The CUA (Credit Union Australia) both discuss organisations with the common need to project their branch and differentiate themselves in a competitive market. Jyske Bank now enjoys a six year old global reputation for creativity and success in branch development. The CUA is launching its first radical new concept but with equal imagination and innovation.

Across the retail banking world the role of the smaller branch, and the importance of reaching out to the community are growing. The Westpac development programme in

New Zealand shows how best practice in branch design, staff deployment and the use of self-service can provide a viable platform for just such successful community outreach.

The development of the post office banking sector continues apace across the world. Deutsche Postbank has evolved through the spectrum of business models and is now a subsidiary of the Deutsche Bank group. This is discussed in chapter 9. The Belgium business operates as a joint venture between the retail arm of the post office and a commercial bank. Kiwibank in New Zealand and PostFinance in Switzerland are still owned by the post office but their approach to branching is diverging. Both are operating through increasingly sophisticated retail outlets. Kiwibank is developing on an increasingly independent basis, whilst PostFinance largely operates through premises shared with its parent organisation. Overall, this chapter provides an illustration of the developing and strong competitive threat that is now emerging from this sector.

The section concludes with a discussion of successful examples of local empowerment, franchised community branches, shared outlets, and the provision of banking services through a mobile branch. All are addressed with examples from today's market.

Section B: Aligning branches and segments

This section opens with a chapter discussing the recent redevelopment of Deutsche Bank branches. Deutsche Bank has positioned itself as both a brand for premium customers, and one that also offers a premium service to those willing to pay for it. The Postbank, a major group subsidiary, has a contrasting but equally innovative approach to its branch-led multi-channel strategy in the mass market.

The initiative that drove the development of the new North Shore Credit Union (NSCU) retail concept has been part of a strategic repositioning of the institution's core business. The NSCU Financial Spa has been developed to target and accommodate the wealthy immigrant population of Vancouver, with a clear strategy for the development of both the ambience and service levels of the branch.

No bank has got closer than DBS to its target market when developing a branch format to best serve it. DBS challenged young people in Singapore to design a branch they would like, and then the bank worked with them to turn it into a practical reality. The result combines creativity, integrity and channel innovation. OCBC, another major group based in Singapore has taken its own innovative approach to the development of a sub-branded proposition and dedicated retail format targeting Generation Y. These case studies and the reference to a young person's branch launched by Standard Bank in South Africa illustrate the extent to which the branch still has a role to play in acquiring and developing the business of the most techno-savvy segment of society.

UniCredit Bulbank, the leading Bulgarian bank, was the first to both recognise and accommodate the differing requirements of the increasingly powerful women's sector. A dedicated branch, zones in others, product propositions and highly qualified female staff all support this new initiative.

Section C: Drivers of success

This executive summary opened with a statement setting out the objective for retail bankers in respect of their branches. The last section of the report draws on global best practice to set out the basis on which branches will continue to succeed in their primary role as profitable relationship development channels. Across the industry, the three critical generic determinants of success are:

- Location;
- The design of the branch; and,
- The competence of the staff.

The importance of these issues is underscored by the experience of the banks discussed in this report. Beyond the three principal issues, the following are also arguably assuming the greatest significance:

- The representation and projection of the brand;
- The optimum deployment of self-service; and,
- The management of network assets.

The proposals for better management of the branch network as an asset are also instructive should there ever be a scenario in which the effectiveness or relevance of a branch or branches starts to decline.

An informal survey explored the ways in which financial institutions engage with information technology vendors when developing or reviewing their strategy. Most of the banks approached do discuss the development and potential of technology with vendors. However, there is no common approach.

The chapters in Section C are dedicated to exploring the practical implications of each of the above success criteria. The section opens with a statement of the conditions that will characterise the successful branch of the future. These envisage that:

- Customers will feel welcome, valued and comfortable – and they will not have to ask for privacy;

- They will be excited by the physical environment and tolerably challenged by its innovative features;
- They will be hosted by empowered staff with strong inter-personal skills and behaviour patterns making full use of the retail facilities;
- Customers will sense, be informed about and empathise with the bank brand;
- And they will receive lifestyle added-value.
- The branch will be operationally workable (including retail control);
- It will be capable of segmentation;
- It will be technologically advanced with strong customer motivation and support to engage;
- The construction will be economic, flexible and 'green'; and,
- The retail concept will be financially viable to roll out.

In the USA, in-store outlets account for over 5,000 units within a national network of 98,000 branches. In other markets across the world the concept of in-store branching has achieved relatively little. The deployment of branches within the stores of retailers requires the banker to address a range of critical success criteria, in addition to those discussed above. These include:

- The shopper profile;
- The volume of footfall that will pass the location of the branch;
- The mindset of shoppers; and,
- Maintaining good relationships with the retailer's local management team.

The ultimate test of success will be the sales and financial return from the new in-store unit. Experience shows that the benefits may be harvested through branches other than the new unit, and this effect is also considered.

An extended section discusses self-service and the comprehensive functionality available to automate all the principal functions within a retail branch. It also discusses the practicalities of three critical success factors in any plan to migrate customers to self-service:

1. The creation of the right physical environment;

2. The deployment of staff with the appropriate levels of skill and motivational capabilities; and,

3. The creation of adequate capacity to deal with the new self-service transactions.

As demonstrated by many of these case studies and the appendix at the end of the report, delivery channel executives may now pursue self-service solutions on the basis that they are able to handle all the principal transactions conducted within a retail branch.

Conclusions

Despite the continuing statements forecasting its demise, the retail branch remains the principal lead channel in the delivery mix. The continuing strategic role of the branch has been recognised by the many banks across the world that continue to invest in its greater effectiveness, rather than simply divest themselves of their networks.

This report provides evidence of successful branch strategies in many differing markets and roles. It also provides practical guidelines for sustaining the success that has been achieved.

Section B: Aligning branches and segments

Each of the institutions discussed in this section has developed its branches to meet the requirements of a specific segment. The premium market, the women's segment, and branches dedicated to young people feature in a collection of case studies that again demonstrates the creativity that is being applied to retail banking outlets. The case studies are excellent examples of banks and credit unions building branches that their target segments want to visit.

11. North Shore Credit Union (NSCU), Canada

11.1 Introduction

The city of Vancouver is a major metropolitan area with a population of 2.3 million people located on the west coast of Canada. The city itself is home to 603,000 residents. Over the last two decades the population of Vancouver has increased by 130,000 people with a significant influx of Chinese immigrants from the Asia Pacific region, amongst many other nationalities. Vancouver's rapid growth has brought considerable enterprise and resources to the area.

The major banking groups of the country have been active modernisers over the last 10 years. Their commitments to retail banking, new branch concepts, and much improved service levels have made them formidable competitors, and filled the gap left by an absence of community banks in Canada. Credit Union Central of Canada is the trade association for the movement outside of Quebec. It reports that, despite sector consolidation, the membership of its 363 affiliated institutions continues to grow, having reached 5.25 million by the first quarter of 2012. The top three credit unions of British Columbia (western Canada) then accounted for 20% of the movement in terms of both members and assets, at 1.05 million and C$33 billion respectively.

At the start of the new Millennium NSCU was a small credit union with assets of C$600 million, and a strategy that offered little change in its low-growth trajectory. In an increasingly competitive retail environment the survival and progress of any small institution – including a credit union - is dependent upon its ability to develop a strong, positively differentiated position that is attractive to the profitable segments of the market. The means by which NSCU has sought to use the branch in a highly differentiated strategy targeted at specific market segments is the subject of this chapter.

11.2 Differentiation and development

The progress and growth achieved under a new Chief Executive in the early years of the Millennium created the resources that enabled NSCU to make a fundamental change to its target segments and the means by which it delivered its services. The principal focus of the credit union became the wealthy sectors of society. NSCU has within its catchment some of the wealthiest consumers in Canada. These include both the indigenous Canadian business community and the wealthy immigrants who had moved from the Asia Pacific basin. NSCU adopted a strategy seeking to develop a significant share of wallet within these market segments through the creation of a strong lifestyle brand. This was directly reflected by the sophisticated environment that the credit union created through its new branch format. The credit union set out to create a premium financial boutique which, together with its expert advisors, offered five-star service.

The segments that NSCU targeted are demanding users of new technologies through which to access their accounts. Here, the credit union has worked with the movement's service providers to ensure that it can offer both the range and standard that its clients require. NSCU operates a fleet of 21 ATMs, three off-site (plus 2,500 through the Canadian exchange network), which are either located through the branch wall or within a lobby.

The original development process that created the NSCU Financial Spa concept started through a joint effort between the staff of the credit union and an external design team, pursuing a theme of 'west coast affluence'. An equally early decision was taken – based on inspiration drawn from a Zen garden - that the new branch should be developed following principles that would lead to the creation of a 'Financial Spa'. This provided a framework within which to both determine the zones and elements of the branch and create an ambience more akin to that of an up-market home. This approach also reflected research findings that showed the credit union's target segments to have high expectations for brand sophistication, fittings and finishes. The part of Vancouver within which NSCU operates is close to the edge of the metropolitan area and quickly becomes open country backed by mountains and forest with abundant wildlife. A heavy emphasis on the use of local materials ensured that the look and feel of the new branches was deeply evocative of the regional characteristics of west coast living.

11.3 Creating the Financial Spa

Stone and wood have been used extensively in the creation of the public spaces within the branch. A large stone monument extends from the exterior to the interior through the glass to reference the high cliffs that are the geographic backdrop for the market. Carpet has been introduced to create greater intimacy and a softer ambience in the consulting areas. The floor immediately surrounding the concierge desk, where clients stand, is also carpeted. In the public space the ceiling comprises an open wood grid that hangs below and obscures the mechanical equipment, and also creates a softer and quieter environment. Hardwood panels are used for the ceilings above the consulting areas to create a sense of intimacy. The furnishings were equally carefully selected to provide a softer spa ambience. Curved surfaces facilitate 'partnering' between the client and staff member, rather than the more formal across-the-table approach. Furniture has also been designed to be easy to move, thus allowing the participants to better customise the environment in which they are going to hold their discussions. Water features play their part in providing both a pleasant visual distraction and a low-level calming effect.

The design of the branches seeks to manage the tensions that are created between the softness and calm of the spa environment and the deployment of communications technology, the most prominent of which is the video messaging system. Great care has

been taken in placing the screens and providing content that reinforces the brand. In turn, they provide the credit union with the ability to deliver enterprise-wide communications about a range of subjects including brand values, products and services, community engagement and art. The wiring associated with the many devices used in a modern branch has been systematically integrated with the furniture to minimise its presence. All security cameras are hidden. The overall design of the Financial Spas complies with the principles of Feng Shui, thus respecting the sensitivities of Asian clients. Branches carry features that reflect the characteristics of particularly notable locations and markets. The credit union's branch in Whistler, an international ski resort one hour from Vancouver, is just such an example. These premises include a wall that references a snow bank, snow boards used as tabletop surfaces, and floor surfaces that are resistant to the heavier wear from ski boots likely in such a location.

11.4 The zones

The following notes provide an overview of the zones and components of the NSCU Financial Spa.

The attract zone or frontage: The nature of the premises at each location varies. However, NSCU seeks to use large glass windows within which conventional merchandising and high tech messaging is prominent without obscuring the view of the attractive interior. The view of the interior also seeks to convey an image of activity.

Figure 36: NSCU's welcome zone

The welcome zone: This area includes the high-level desk used by the concierge. As mentioned above, the floor immediately surrounding the desk is carpeted. Directly comparable with an upmarket hotel facility, the Concierge at the Welcome Desk is not only supported by a conventional CRM (customer relationship management) systems capability, but this also includes a photograph of the client. NSCU ensures that the CRM system is kept up-to-date in order that it can play its full role in the ongoing dialogue with the credit union's clients.

The kids' zone: An area close to the queuing station provides a range of distractions for the younger children of customers. This includes X-Box, books, videos, and a range of toys.

The refresh station: This simple but tastefully presented facility provides clients with the ability to partake of a range of refreshments.

Figure 37: Fun for growing visitors!

The public space: A key feature of the branch is the 'Discovery Wall' which is deployed to promote member connections with the credit union. This zone is typically between three and five metres long, and the base of the wall comprises highly polished black rocks reflecting the many rivers and streams of the region. High quality shelving is also provided

in order to display the work of regional artists, who benefit from a significant level of exposure through NSCU outlets. This approach keeps the walls clear for brand communications and other corporate messages. The communications media vary from digital screens to the conventional posters and brochures. This is also the principal area within which customer seminars and other events are run, as added value for clients and as a means of reinforcing the standing and brand of NSCU.

Figure 38: View across to the NSCU tellers

The transaction zone: Open teller locations operated by Member Service Representatives blend into the overall design and layout of the Financial Spa. The absence of the usual security screens allows for greater flexibility in the use of space and an easy dialogue between the client and teller. The wall behind the teller locations features the random placement of vertical slats of wood reflecting the region's forests. They also provide a counterpoint and backdrop to the use of video technology. As at the Discovery Wall, the screens are conveying a series of corporate messages varying from brand reinforcement to lifestyle related promotions. A typical facility will include three teller points of which usually only two are subject to regular use.

The discovery room: This is a secluded facility that provides a very high quality waiting environment for the Wealth Management clients of the credit union. These are the clients who are not only taking advantage of the full range of retail banking services, but are also engaging with the more sophisticated NSCU advisory services. The room is designed to provide a relaxing, intimate interlude for clients while they are waiting to meet with their adviser. It also functions as a social transition zone for staff and clients to connect before

moving to an office. Carefully designed furniture and a fireplace are among the features of this space within the branch.

Figure 39: The waiting area and 'Discovery Wall'

The advisory zone: The offices within which customers are met enjoy the same high standard of finish and provide what the credit union calls sophisticated privacy. Glass panelling set in oriental style wooden "shoji" frames is used extensively for both barriers and doors. When the offices are not being used, wooden framed, glass panelled doors slide open providing access through a 1.2 metre aperture. When closed, the stained glass panels of the door provide considerable privacy without obscuring excessive amounts of light. The stained glass is sourced from local artists. Members of staff are not allowed to regard the offices as a personal facility, although they are allowed to display one approved family photograph and any professional certificates.

Figure 40: Wealth management conference facilities

11.5 Staffing the Financial Spa

The critical role of high quality staff in executing the strategy of NSCU was recognised from the outset. Much had to be done in order to reorientate staff to the new culture and the standards commensurate with the Financial Spa. During the course of the process it became apparent that not everyone was willing to make the change and as a result, some choose to leave. Changes to the local team quickly reasserted the key elements of the new standards embodied in the concept of the Financial Spa, and ensured that the development of the business progressed. The new focus on the wealthier segments of the community has been the cause of a significant reduction in the number of teller transactions handled by the credit union. This has allowed NSCU to retrain and redeploy these staff to a relationship and business development role.

The credit union has hired significant numbers of the staff that it requires for its Financial Spas from the large Canadian banks. In this way it benefits from the significant knowledge of the business and established proven professional track record that recruits have already built up. The branch Concierge undergoes specialist training, including sessions with upscale hotel concierges. The credit union runs its own in-house concierge group where they are encouraged to share ideas and experiences as part of a collective learning experience. As mentioned above, the Concierge function is also supported by a well developed customer identification and relationship management system.

Overall, the credit union recognises that the success of its strategy has a critical dependence on the interpersonal skills and professional expertise of its front-line staff, and the trust that they build up within the client base. It has ensured that its remuneration and incentives policy recognises the critical role of these employees. In turn, they sustain the daily level of delivery of the brand values of NSCU and have proved to be extremely loyal.

11.6 Conclusions

The assets under administration by NSCU have grown by more than four times since 2001, to reach C$2.7 billion by the end of 2011. The growth rate in deposits at NSCU over the last two years has exceeded the nearest member of its peer group by more than a factor of two. 82% of deposits are now attributable to clients that have over C$100,000 lodged with NSCU. Moreover, 20% of this group have deposited funds in excess of C$1 million. The credit union claims that client loyalty is high, and NSCU has won many awards as an employer, for its culture and for its 'Green' attributes.

The credit union's strategy, and the rigorous approach that has been taken to its execution, is the result of the vision and long term commitment of the current Chief Executive. The new style of branch environment that has been created has been expensive to bring to fruition. Early figures of C$3 million per unit have since been

reduced by experience and value-engineering. However, NSCU is unabashed about the cost of the branches which have proved highly effective in the role for which they were specially designed. NSCU has succeeded in achieving its original objectives of cultivating a share of the business of the local affluent by creating a style of branch and a staff culture that its target segments find attractive to visit. Looking back on its success, it takes the view that the effect of its strategy has been to change the perception of what a credit union might be and democratise private banking.

This case study clearly reflects the value in carefully aligning the development and operation of the branch with the needs and expectations of the most profitable segments of the market.

Appendix B: Contributors

The report includes numerous photographs. Unless otherwise indicated these photographs have been provided by the organisations being profiled.

The author would like to express his appreciation to the following executives for their valuable input:

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