

New Contours for Bank Branches as Customers Get Digitally Savvy



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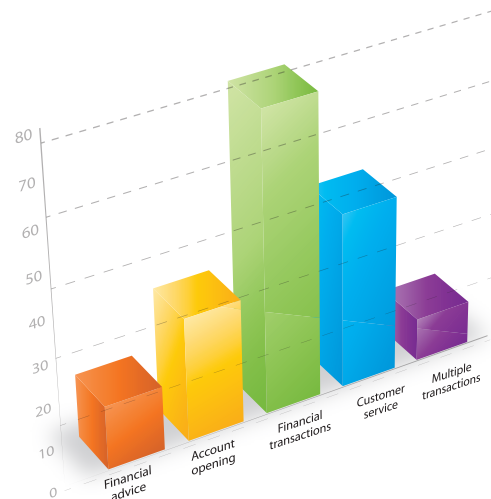
As the global banking industry grapples with sweeping changes in its competitive and regulatory environment, it also faces new realities impacting how it designs and delivers services at the branch level. The emerging class of digitally-savvy bank customers, including small and medium sized enterprises (SMEs), increasingly wants to use bank branches more for sophisticated financial advice, support and products, and less for conventional transactions like cashing pay checks. This white paper produced jointly by Knowledge@Wharton and Wipro Technologies captures the emerging business models for bank branches, based on comprehensive customer surveys in the U.S. and in India, and interviews with Wharton faculty and Wipro executives.

This research project ties in with at least two major initiatives at Wipro aimed at helping its clients “do business better.” One is to tap into the increasing trend towards consumerization, especially with the rise of social media channels including Facebook and Twitter. Consumer spending for IT exceeds that of business spending and the provisioning of IT services designed for consumers are the two defining factors, says a Wipro concept note on what it sees as the four major trends shaping the future of business. The second is the increasing use of business analytics to draw insights for optimizing delivery channels, launching new products and extract savings, among others.

Ways of Seeing the Bank Branch

The survey’s 766 respondents were drawn predominantly from the U.S. (44%), while the rest were spread across India, Europe, Middle East, Africa, South/ Central America and elsewhere in Asia. Bank customers in India and in the U.S. are at different stations on the evolution curve. Wharton marketing professor Elea McDonnell Feit notices that the survey shows it is important or very important to talk to a financial expert in person for 79% of Indian respondents, compared to 44% for Americans. “That’s striking; that’s huge,” she says.

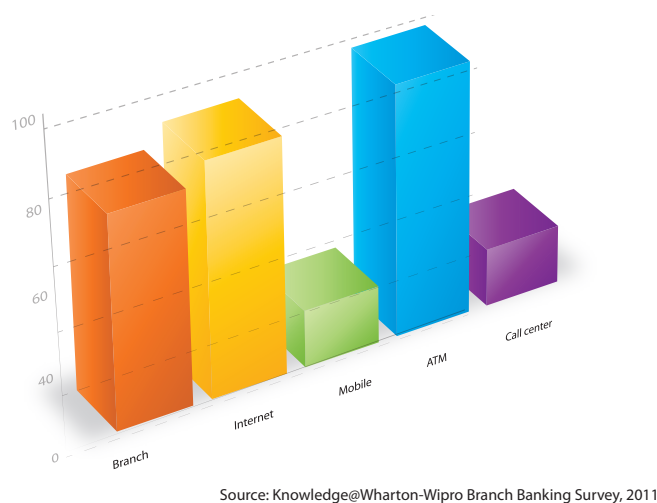
Transactions Performed at a Bank Branch: U.S. vs India



Source: Knowledge@Wharton-Wipro Branch Banking Survey, 2011

“My big take away from the survey is the Indians are indicating they want to talk to people more but they are less likely to use a branch,” says Feit. “Only 62% say they use a branch, but most of them want to talk to somebody in person.” By contrast, 82% of U.S. respondents said they use branch banking services. In using Internet banking the gulf was wide between U.S. respondents (89%) and Indian respondents (67%), but they were on the same page for use of ATMs (83% and 82%, respectively).

Use of Banking Channels: Degree of Comfort

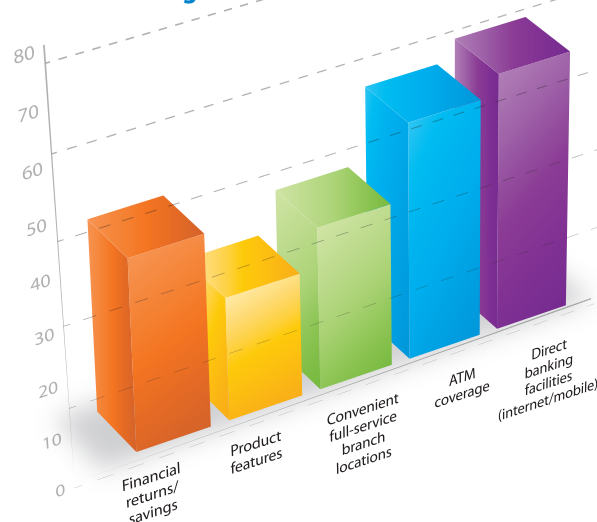


Branches will Remain Important, but Need Re-engineering

In contrast to predictions from many banking industry experts, bank branches are expected to be relevant in the foreseeable future, the survey finds. At the same time, it reveals that with the world becoming more and more networked and interconnected, customer engagement models will undergo significant transformation with the rise of digitally savvy customers. Clearly, the trend is moving towards digital banking. In selecting a financial services provider, respondents gave greater importance to “direct banking facilities” like Internet and mobile banking (52%), as opposed to full-service branch locations (33%) and ATM coverage (48%).

Is the bank branch dying? “It is and it’s not,” says Mauro Guillen, Wharton professor of international management

Priorities in Selecting a Financial Provider



and director of The Lauder Institute, which focuses on integrating management education with international studies. He charts the evolution of the technology curve for bank and their branches: The first new technology for banks was the telephone in the 1970s, and with it came telephone banking started in the 70s. Next came the ATM, and after that came the Internet. The next frontier is mobile banking.

“Each time what happened was a new way of interacting with bank customers that had to be included in the repertoire. They have not replaced the physical bank completely, for two reasons. Bank customers like the Internet and the phone for checking balances and paying bills but for more important things they tend to go to the branch. In addition, banks tend to be more successful in selling wrap-around services such as a mutual fund or other financial products when the customer visits the bank branch.” The banks themselves want the customers in the branches because it is much harder to sell all those financial products on the phone, he adds. Guillen also sees bank branches as barriers to entry. “If I open 20 or 30 branches in Philadelphia, it is much harder for other banks to come into that area.”

“Branches will remain relevant, and will help manage and enrich customer relationships, by being core of the multi channel network,” says Shankar Sundarajan, enterprise

banking practice head at Wipro. But with the change in customer demographics towards digital media, branches will focus on sales and advisory services and move away from servicing, he adds.

Feit says she can envision a world where for most transactions bank customers would use the ATM, mobile banking or the Internet. But they would go to a bank branch when they need to find “highly skilled, highly trained people who can handle the most difficult transactions or the most difficult situations, including financial advice.” This has significant implications for banking services that are delivered through branches. “That means the bank branch needs to re-envision how services are provided,” she notes.

With the rise of channels like the web and mobile communications, “everybody thought that branches will go down the path of ‘slow death’ and banks had not invested much in the last 15 years in upgrading technology at their branches,” notes Sriram Srinivasan, senior vice president of banking at Wipro. But branches have received more attention and investments in the past two to three years, because “there is increased hunger amongst banks for low-cost deposits and to capture new customers,” he says.

The 360-Degree View

Banks need to take a 360-degree view of the customer’s needs, according to Guillen. He sees tomorrow’s bank branches becoming like open spaces where customers could come and use computers for their banking needs, have a cup of coffee and get financial advice. For SME customers, they could offer services such as a notary public, a legal advisor, or even printers where the neighborhood dry cleaner could get printouts of his bank statements.

“You need to change the idea of the branch,” he says.

“Customers come in from the street and then you have a big barrier like a bullet proof glass door and then you have the employees. And if it is something important you get to sit with the bank manager.” Guillen draws lessons from book retailer Barnes & Noble scoring over its erstwhile rival Borders by housing Starbucks coffee outlets at its bookstores. “The bank branch has to move in that direction.

It has to become more like a bookstore or the coffee shop round the corner.”

All said, the retail banking industry seems to be happy with the status quo and is one of the “most conservative and traditional business you can think of,” says Guillen. “For the last 140 years the bank branch has functioned in the same way. They’ve added ATM machines and computers, but it is the bank employees that are using the computers.” He believes supermarkets are more amenable to technological change, with features such as self-scanning purchases and self-checkout facilities.

Touch Points for Digitally Savvy Customers

Managing digitally-savvy customers in bank branches calls for perspectives across three broad categories, according to Srinivasan. For information services, he says banks could adopt interactive, self-discovery solutions using touch screens, Wi-Fi, interactive video kiosks, iPad desks and so forth at their branches. For account servicing, he feels the bank branch is “the most expensive channel used to deliver most low-end services” and the solutions lie in self-service or assisted-self-service. To cater to SME needs and provide financial counseling, banks need to integrate their sales, customer relationship management, business intelligence and core systems, he adds.

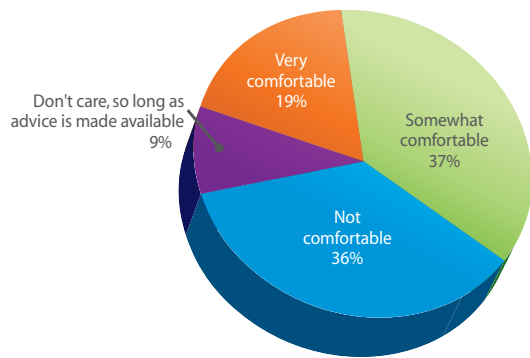
But as change does occur, the channel with the most traction is mobile banking, especially with the proliferation of smart phones, according to Sundarrajan. Smart phones will enable coupon-based marketing services, and also lead to increasing use of social media for product marketing and campaigns, he says. Here, he finds the data connectivity capability of smart phones “extremely encouraging” in enabling downloads of mobile applications. “There is no limitation on the range of functions offered on mobile phones, and mobile payments are picking up big time in Japan and South Korea,” he says, adding that retailers in the U.S. too are launching pilots on mobile payments.

Mobile banking is still emerging, and one concern is security, “but it is following its natural course” of evolution, according to Guillen. Banks are just beginning to use social

media to interact with customers, but those channels “could be very powerful if integrated with the branch network,” he says, adding that “nobody is doing that [as yet].”

The survey shows that the use of mobile banking in India is low at 18%, compared with ATMs (83%), Internet banking (78%) and branch banking (71%). Some 56% of the respondents were “very comfortable” or “somewhat comfortable” with video conferencing or virtual avatars, but a high number (36%) said they were “not comfortable” with those options.

Talking remotely to a financial advisor using videoconferencing or virtual avatars



Source: Knowledge@Wharton-Wipro Branch Banking Survey, 2011

Mobile wallets and other payment mechanisms, and the use of biometrics would “define the next wave of mobile banking offerings,” says Srinivasan. The State Bank of India’s “mobile wallet” offering allows customers to manage micropayments on their handsets, and is “a great hit amongst low-income groups and the small-vendor community,” he adds.

Srinivasan points out that a few challenges do exist with mobile banking. First, security concerns among customers hurt the pace of adoption of mobile banking. Second, banks are “already struggling” to provide a consistent experience across different mobile platforms and devices. Banks, which have hitherto been “poor innovators” need to “take charge” of innovation on this front, and collaborate with others in the mobile value chain like handset makers and mobile service providers, he adds.

Feit believes in the power of social media to flag customer preferences much sooner than is possible through conventional means. She expects banks to tap increasingly into this approach, filling gaps where surveys might fall short. “In social media, customers are pushing information towards you. All you have to do is to put your ear to the ground and listen,” she says. “If you do that you’ll often find things you wouldn’t expect and wouldn’t know to ask about in a survey context.” She offers the example of food products companies doing text mining (on Facebook, Twitter, etc.) to get insights that they might not expect from a survey.

Reinventing the Branch Format

Srinivasan lists two key mantras for next-gen branches. One is to contain costs. That is achieved in a variety of ways including shrinking the physical size of branches to cut real estate costs; thereby reducing infrastructure costs, capital and running expenses; more automation and integration by enabling self-service or assisted self-service; and having fewer tellers to save on people costs. His second mantra for branches is to focus on revenue generation by cross-selling financial products and integrating business intelligence with branch-level and customer relationship management (CRM) solutions. They could also leverage virtual technology to access pools of SME customers from multiple locations.

Several global banks have tested reinventing the branch format, and Srinivasan offers a few examples.

- The Spanish banking group Banco Bilbao Vizcaya Argentaria has launched a “more humanized” full self-service branch based on next-generation, advanced teller machines to replace the conventional “Cold ATM” functionality.
- The Dutch ABN Amro Bank has experimented with a “teleportal” branch that is an unstaffed videoconferencing facility.
- Germany’s Deutsche Bank innovated way back in 2005 with its Q110 branch in Berlin, which contains lounge and self-service areas, along with tangible product displays that allow customers to pick up a package and pay for it at a counter.

- Others include Citibank’s “Branch of the Future” in Hong Kong, Singapore and New York City, and BNP Paribas’s “Opera Concept Store,” a boutique branch in Paris.
- Portland, Ore.-based Umpqua Bank has redesigned its branches as “community centers,” while the Canadian TD Bank has rebranded all its branches as “TD Bank Store,” largely inspired by retail industry concepts.

New approaches in analytics

As banks coax every behavioral instinct of their customers through surveys, the “next big opportunity lies in bringing the data sources together at the individual level,” says Feit. It goes beyond possessing data about, say this group of 766 customers about whom little else is known. She sees the opportunity in linking the survey data with other data sources available at the individual level, such as the frequency of ATM usage. With those insights, banks don’t just know about a group of people that was dissatisfied, but they can tie that to the experience that individual customers will have, she adds. For example, they might find that customers who live more than 20 miles from the branch are really happy with digital services. But those who live close have a tendency to go to the branch when they could go to the ATM, she explains.

Banks could also use analytics to better understand and be better equipped to meet the needs of digital customers. Feit, who is also research director at the Wharton Customer Analytics Initiative, says banks have a wealth of data in customer transaction records they could mine for insights. Feit focuses her research “on the intersection between consumer preferences and product design,” including in the financial services industry.

“In interactions with the customers of your bank you would know how often they come to a branch, how often they use the ATM,” Feit says. “You may find out that there is some latent need those customers have that they are servicing through ATMs, that they could easily migrate over to, say, mobile banking.” Sundarrajan expects analytics to help banks “bundle the right products to customer, based on the customer’s need, demographic profile and peer group buying behavior.”

Customer service: Challenges and solutions

The survey reveals insights into customer expectations on service delivery. Some 85% of the respondents to another question said they are comfortable with using self-service tools in banking, so long as they are user friendly, and only

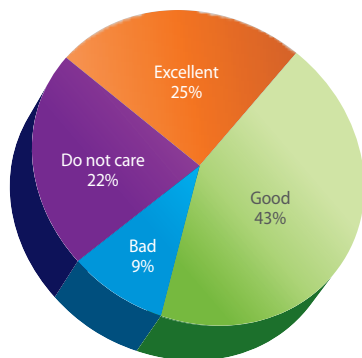
Service Delivery Model: The Wipro View

Transaction Value-Chain	Transaction Types	Channel	Technology vs. Value	Ideal Service Model
Sales	Low-Complex Originations High-Complex Originations New Customers	Branch Internet	Low Tech -- High Value	Assisted Self Service
Advisory	Advice Financial Planning Portfolio Management	Branch	Low Tech -- High Value	Assisted
Servicing: Transaction-Based	Customer Servicing (Products & Accounts)	Internet Branch Mobile Call Center	High Tech -- Low Value	Self Service Assisted Self-Service
Servicing: Information-Based	Product and Services Information	Internet Branch	Low Tech -- Low Value	Self Service
Servicing Resolutions	Complaints Exceptions	Branch Call Center	Low Tech -- Low Value	Assisted

Source: Sriram Srinivasan, senior vice president and global head of banking and financial services business, Wipro Technologies.

12% said they don't prefer self-service. About 68% of respondents (to another question) liked the idea of "floating financial advisors" at bank branches, who are equipped with devices like iPad tablets.

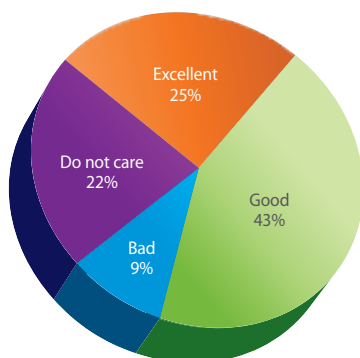
Idea of floating financial advisors using iPad-like mobile tools in branch peak hours



Source: Knowledge@Wharton-Wipro Branch Banking Survey, 2011

Despite the trend towards digital banking, the survey shows heavy dependence on customer service at branches (41%). A "branch experience" cannot be replicated the same degree on the Internet, but Srinivasan says banks could bridge that gap in several ways. They include online text chats, video chats, online videoconferencing, and instant call-me-back features. They will help reduce the gap between customer expectation and experience, and increase Internet banking adoption rates. Adds Sundarajan: "To balance between the

Current Branch Experience



Source: Knowledge@Wharton-Wipro Branch Banking Survey, 2011

branch level customer service and online banking, banks will take the middle path of enabling click-to-chat options to make human help readily available whilst the customer is transacting online."

Respondents didn't seem completely satisfied with even the current level of their branch experience and only 43% ranked it as either "excellent" or "good." Srinivasan attributes that mainly to customer service shortcomings, and says banks must prioritize addressing this deficiency. Sundarajan says most bank branches use traditional teller-based servicing models "and relationship managers are not well-equipped and empowered with the right tools, knowledge and skills to enable re-define the customer engagement models to cater to the digitally savvy generation." However, he suggests these fixes: improved customer communication and language; efficiency gains through process upgrades and training; and better integration of technology platforms for service delivery.

In determining the right strategy to provide services to customers, banks would have to evaluate their models against their existing strengths in their delivery channels. Sundarajan points to examples of that exercise at banks like Umpqua in the U.S. and ING in Europe. Before piloting their virtual offerings, these banks decided on the best-fit location for their pilot projects. They did that with customer segmentation and complexity of the products and services for which advisory services were being offered remotely, he explains.

Finding the right service delivery model

Srinivasan provides an analysis of the major transaction types to identify the ideal service model(s), technology intensity and their value for banks:

- The sales function at banks lends itself to delivery at both branches and over the Internet, with either assisted service or assisted self-service. These are low-tech models, but offer high value.

- Transaction-based services for customer accounts or financial products could be rendered through a variety of channels: branches, call centers, the Internet and mobile banking. These can use self-service or assisted self-service models. However, these are high-tech in nature and offer relatively low value to the bank.
- Information about products and services could be provided at both branches and over the Internet in self-service models. This is both low-tech and offers low value.
- Services such as resolving customer complaints can be provided at both branches and through call centers in assisted-service models.

Branch Banking: Different Strokes

Bank customers in the U.S. tend to value branches mostly to the same extent as in other countries, but with one big difference, Guillen notes. Check writing may be a dying phenomenon, but is widely prevalent in the U.S. People who depend on the government receive their benefits through checks, such as social security payments, and many others visit banks to deposit and cash their checks, he says. Technology can play a big role here, especially in helping reduce check cashing fees, which tend to be “enormous” at 1% or more, he adds.

Banks could also address the under-penetration of their services among the poor in the U.S. and in rural India, says Feit. “There is room for innovation for capturing that wealth at the bottom of the pyramid,” she says. “Technology has to create products that make financial services available to those people. They really need it. For people who don’t have it, money is even more important than it is for wealthy people.”



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