

fs viewpoint

www.pwc.com/fsi

December 2012

02

Point of view

13

Competitive intelligence

17

A deeper dive into branch strategies

21

A framework for response

29

How PwC can help

34

Appendix



Rebooting the branch:
Reinventing branch banking in a multi-channel, global environment

pwc

Point of view



The rise of the digital consumer and the high-cost infrastructure of physical banking locations are leading to a declining ROI for branches. If the branch model stays on its current course, it will become a financial burden to banks, cutting deep into cross-channel profitability.

The exploding use of digital channels has decreased branch traffic and sales.

Foot traffic suffering

Customers' use of online and mobile technology for their banking needs has grown rapidly. With the convenience of digital channels, customers are visiting branches less often.

According to a 2011 survey, 62% of respondents said the Internet is their preferred banking method. Only 20% selected branch banking—a sharp decline compared with 2007 when nearly 40% of respondents preferred to bank at a branch (see chart below).¹

Shrinking branch traffic leaves fewer sales opportunities

Branch representatives are opening fewer new accounts than in the past. The median number of new accounts opened per representative dropped from 48 in 2007 to 37 in 2010.²

Given the cost infrastructure of today's branches, banks can't drive the increase in revenue necessary to maintain a positive ROI without transforming their branch model.

Branch transaction costs well exceed other channels

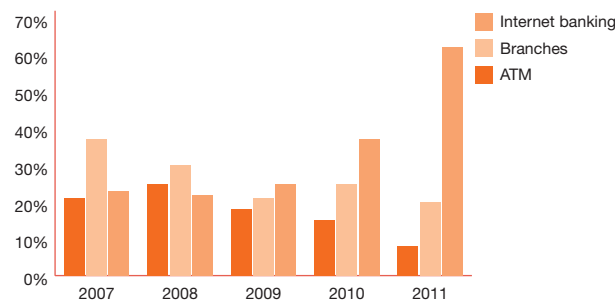
The cost of a branch transaction is approximately 20 times higher than a mobile transaction and more than 40 times higher than an online transaction. This disparity is crippling the current branch model (see chart below).³

Faced with declining revenues, banks are re-evaluating branch economics and finding little room to improve cost efficiency.

- Most branch real estate comprises fixed assets or long-term leases that are difficult to renegotiate or sell in the current market.
- Branch staffing levels have already been reduced to near minimums, dropping from 13 FTEs in 2004⁴ to just six in 2010.⁵

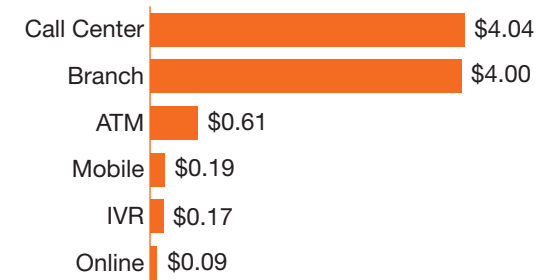
1 American Bankers Association, "ABA Survey: Popularity of Online Banking Explodes," September 8, 2011, www.aba.com.
 2 Cornerstone Advisors, Inc., "The Cornerstone Report: Benchmarks and Best Practices for Mid-Size Banks (Fifth Edition)," 2010, www.cornstone.com.
 3 CEB TowerGroup, 2012.
 4 Hannan, Timothy H., and Hanweck, Gerald A., "Recent Trends in the Number and Size of Bank Branches: An Examination of Likely Determinants," Federal Reserve Board, February 2008, www.federalreserve.gov.
 5 Cornerstone Advisors, Inc., "The Cornerstone Report: Benchmarks and Best Practices for Mid-Size Banks (Fifth Edition)," 2010, www.cornstone.com.

Preferred banking method (all age groups)



Source: American Bankers Association

Average transaction cost in the US (includes labor and IT costs)



Source: CEB TowerGroup

The branch of the future has a critical place in banks' overall channel strategy. But branches cannot survive in their traditional form. Evolving the branch network to align with changing consumer and economic realities can help banks boost revenues and ROI and position themselves for the future.

A time for change

Decreased traffic and cost inefficiencies shouldn't signal the demise of the branch. Instead, these factors should be a warning that urges banks to take the next step in their branch channel evolution. Those that don't are likely to experience:

- A continued decline in branch traffic and sales.
- Loss of wallet share to innovative competitors whose branch transformation efforts better address consumer needs.

Branches remain an important interaction point, playing an essential role in complex product sales and relationship building for both retail and small-business customers.

Branches remain the most popular channel for mortgage applications and similar product sales where face-to-face interaction is paramount (see chart below).¹

Retailers and other local businesses continue to use the branch for daily cash deposits and withdrawals.

Branches convey a community and market presence, reinforcing brand recognition and trust.

But as consumers transform the way they bank, the value proposition of traditional branches is in question.

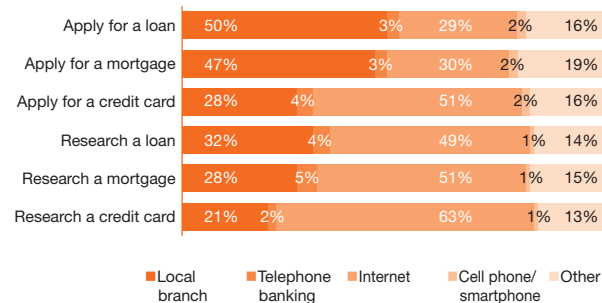
Customers increasingly demand:

- One-stop shopping.
- Personalized attention.
- Access to expertise.
- Quick and competent service.
- Immediate problem resolution.
- Recognition of their value to the bank.

Going forward, banks should determine how to transform their physical branch network to:

- Match consumer preferences and expectations.
- Improve customer acquisition and cross-sales.
- Retain a personalized service model.
- Direct the most value-added services to the branch, thereby increasing what we call "right" branch interaction.
- Reduce operating costs.

Customers' preferred channels



¹ PwC Survey of consumer retail banking, February 2011.

Many banks are responding to the changing marketplace by piloting forward-looking initiatives designed to increase branch revenue and ROI.

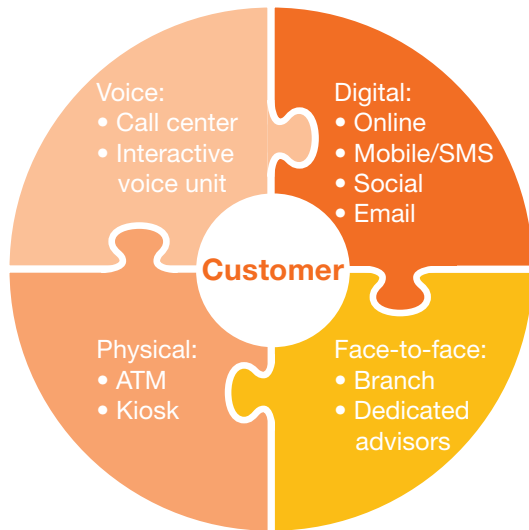
These initiatives are a step in the right direction, but they are often one-off activities that don't include strategic, enterprise-wide planning or coordination across all of the bank's distribution channels.

Some of the forward-looking initiatives banks are implementing include:

- | | |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Increasing cross-sales | <ul style="list-style-type: none">• Integrating mortgage banking and investment capabilities into banking centers.• Introducing a structured cross-selling approach with team-based selling and detailed customer profiling. |
| Improving operational efficiency | <ul style="list-style-type: none">• Offering self-service technology for lower-value interactions and encouraging migration to lower-cost channels.• Introducing iPads and telepresence to deliver consultative sales at a lower cost. |
| Expanding the branch footprint | <ul style="list-style-type: none">• Partnering with supermarkets and corporations to provide banking where customers shop and work.• Opening small, self-service branches for routine transactions that don't require face-to-face interaction. |
| Showcasing innovation capabilities | <ul style="list-style-type: none">• Opening new concept stores with interactive advice areas and touch-screen technology.• Testing new technology innovations such as teller-assisted self-service kiosks and paperless tellers. |
| Increasing focus on relationship building | <ul style="list-style-type: none">• Offering community-based seminars on topics critical to the success of the small-business community.• Hosting seminars on investing, buying a home, estate and retirement planning, etc. |
-

Leading banks are moving away from “managing branches” and instead are “managing distribution” across all of the bank’s channels.

Channel strategy



A multi-channel distribution strategy encompasses all distribution channels—including physical, digital, face-to-face, and voice. This strategy helps banks focus on how best to acquire and service customers across all of these channels to maximize revenue and profits for the whole bank, including the branch network.

As leading banks transform their branch strategy, they’re addressing the following questions:

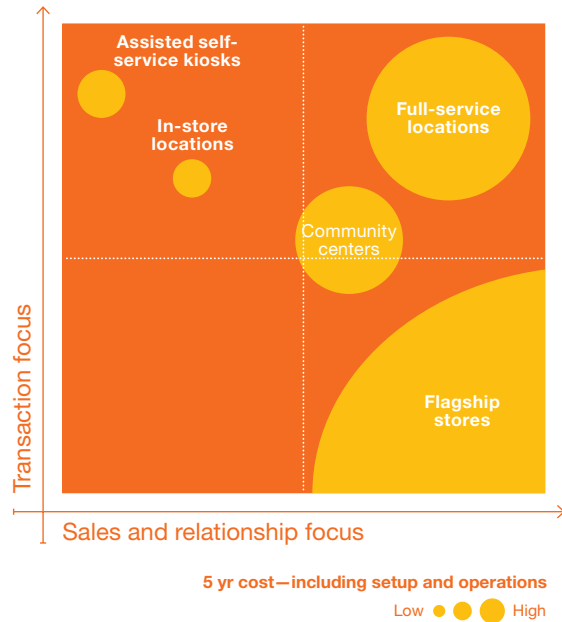
- What is the role of my branch network in today’s multi-channel environment?
- Am I using my physical channel appropriately? How does it align with my contact center and digital channels?
- Is my branch network competitive? How should it evolve in light of changing market forces?
- How can I increase customer acquisition and sales through the branch network?
- How can I serve my retail and small-business customers without incurring the high fixed costs of an extensive branch network?
- Are my branches focused on the right activities? How can I increase branch productivity and utilization?
- How do I optimize the value of my real estate assets and technology investments?

Leading banks also are taking the following actions to put their multi-channel distribution strategy in place:

- Revamping their organizational structure. Separation of ownership across channels has historically led to branch decisions that don’t consider the bank’s overall distribution strategy. Leading banks are changing this to create an enterprise-wide view that supports intelligent multi-channel decisions.
- Understanding and managing channel interaction points as carefully as they manage the customer experience within each channel.
- Building infrastructure and processes to support multi-channel information sharing, seamless customer transitions, and a consistent customer experience.

As part of their multi-channel distribution strategy, leading banks' branch channels include a variety of branch models that balance retail and small-business customer needs in the local market with the cost of delivery.

Leading banks balance customer needs, revenue opportunities, and cost to determine the right mix of branch models



Leading banks are adopting a mix of five emerging branch models. The models selected align to the target customers in each market. This increases the bank's geographic relevance to consumers and balances customer needs, revenue opportunities, and cost to achieve ROI growth.

The five emerging models include:

- 1. Assisted self-service branches**—Cater to retail and small-business customers on the go with high-function kiosks—some of which may be video-enabled. Only one employee is needed on-site to assist with kiosk functionality.
- 2. In-store and corporate branches**—Provide convenient access for busy customers who want simple transactions and account sales where they shop and work. These streamlined branch locations include grocery stores and corporate office buildings.
- 3. Full-service branches**—Provide one-stop banking (sales and service) to retail and small-business customers who prefer privacy and face-to-face interactions. There will be fewer full-service branches in the future. Those that remain will be technologically advanced with features such as video capabilities, back-office automation, and reconfigured office designs to better balance transactions, relationship-building, and sales.
- 4. Community centers**—Provide a customized experience based on the local community they serve. They have a smaller footprint than traditional branches. Employees know their customers by name, are engaged in community events, and even host networking sessions supporting local businesses at the branch.
- 5. Flagship stores**—Deliver sales and advisory expertise while showcasing emerging capabilities to sophisticated customers.

Not all models work for all banks. Adopting a combination of branch models based on target customer segments in the local market as well as the bank's strategic goals is the most effective strategy.

One size does not fit all. For instance, consider the following vastly different markets and the models that are suited to each:

- In areas with a digitally savvy, high-net-worth demographic, banks should consider opening a flagship store to showcase emerging technological capabilities, maintain select full-service branches for personalized service, and provide access and convenience through a large number of self-service kiosks.
- For industrial/business areas with a heavy deposit volume, banks should consider moving to a less expensive automated-transaction center model with more in-store/corporate locations.
- In areas with a strong small-business concentration, banks should consider staffing branches with more business representatives and loan officers and establishing business-focused, self-service kiosks for large-dollar transactions.
- In locations with a strong community identity, banks should consider providing a localized experience with tailored products and services, partnerships with local associations, and networking events and engagements.

Drivers to determine the right branch mix

Market characteristics

- Population density (rural, suburban, urban)
- Primary usage (residential, market/commercial, industrial)
- Community concentration (ethnicity, age groups such as college students or young families)
- Competition (national vs. regional vs. community bank)
- Growth prospects (high growth, mature market, stagnating)

Primary customer characteristics

- Asset/income level (high net worth vs. mass market)
- Financial products held (deposits, loans, investments)
- Digital adoption (high comfort, low usage)
- Engagement style (self-service, looking for advice)

Bank considerations

- Market profitability (revenue from customer base, growth potential)
 - Strategic focus (target levels of penetration, market share)
 - Current capabilities (number of branches and ATMs, productivity levels, branch performance)
-

If executed well, the branch network of the future can be mutually beneficial for banks and their customers.

Value to the customer

One-stop shops and access to expertise: Some branch models will offer a full range of products and advice, while others will provide access through video-conferencing.

Personalized attention: Agents in certain branch models will focus on consultative sales and relationship building, while others will have access to customized and interactive tools.

Options based on interaction type: Customers will have a mix of physical locations ranging from self-service kiosks for fast and convenient transactions to locations focusing on advice and product expertise.

Alignment with needs and preferences: The mix of branch models and office designs will be tailored to the preferences and needs of customers in the local market.

Value to the bank

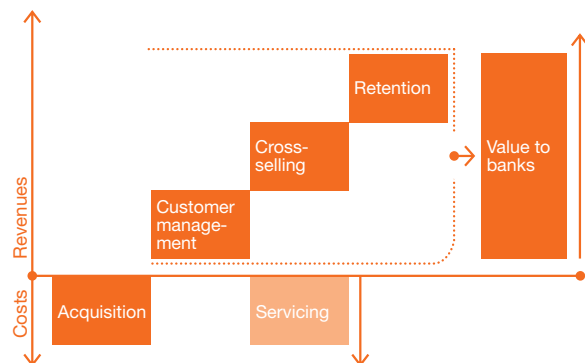
More efficient customer management: This includes customers choosing how they engage with the bank, the bank sharing information across branches, and enabling seamless customer transition.

Greater revenue through increased cross-selling: This is achieved with tailored cross-selling capabilities (e.g., lead management, consultative sales) and access to expertise at the right time for customers.

Increased customer retention: Investments in channel functionality that are relevant to customers can lead to higher customer lifetime value and greater customer satisfaction.

Reduced servicing costs: Transitioning to lower-cost branch models can reduce overall network costs. Providing service quality consistently across branches and aligning branches to customers' needs should limit higher-cost service requests.

Branch transformation can deliver tangible value to banks, ultimately increasing revenue and reducing costs



Any large-scale transformation will present obstacles. Banks may need to overcome cultural and operational roadblocks as they shift to a multi-channel model and change the role of the branch.

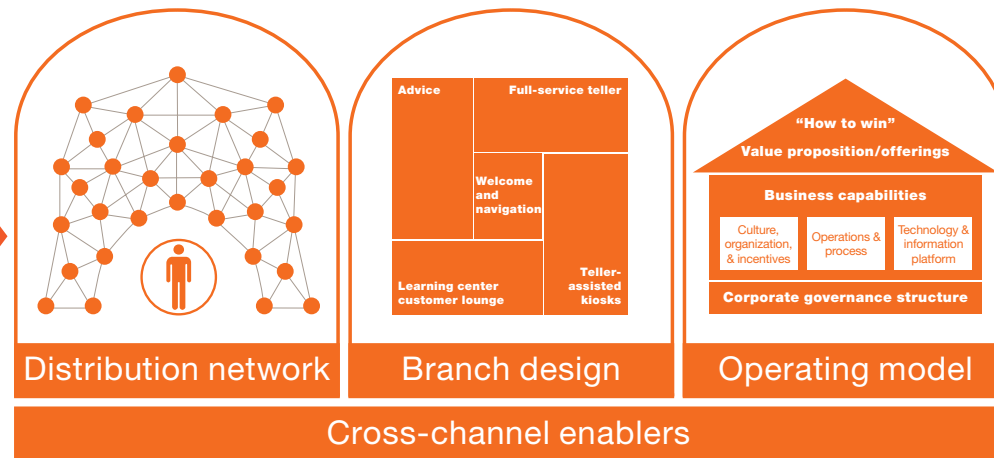
Challenges to a successful branch-network transformation	Solutions
Developing a branch strategy and investment plan that takes into account behavioral segmentation and shifting customer preferences.	Leverage customer segmentation and analytics to understand customer behaviors and preferences as well as the geographic locations and channels of service they use most.
Developing a branch strategy that incorporates capabilities and adoption expectations across the contact center and digital channels.	Develop infrastructure that includes a 360-degree view of the customer, lead management solutions, video-conferencing, enterprise case management, and other foundational capabilities to enable branch transformation.
Making decisions on branch closures or transformations in an environment where such initiatives may be construed as indicators of instability.	Perform studies based on profitability and branch usage across the bank network to target branches that need transformation or may need to be closed; have a communication strategy in place and clearly articulate the rationale and commitment to customers.
Obtaining and sustaining organizational consensus and leadership focus for a major transformation over an extended time.	Establish a consistent vision for the branch network and a clearly articulated role in the context of the future multi-channel distribution environment.
Staging the change at a pace that will create internal and external enthusiasm while recognizing the need to support adoption.	Evaluate the impact of transformation on the bank and develop a change management strategy; show value through quick wins and early achievements.
Realigning performance metrics and incentives to branch objectives and priorities.	Once the branch objectives and priorities have been set, review the performance measures and incentives to incorporate elements that will encourage the adoption of the new objectives.

We see successful banks designing their branch strategies to deliver a differentiated customer experience based on customers' needs, the competitive landscape, brand promise, and internal capabilities.

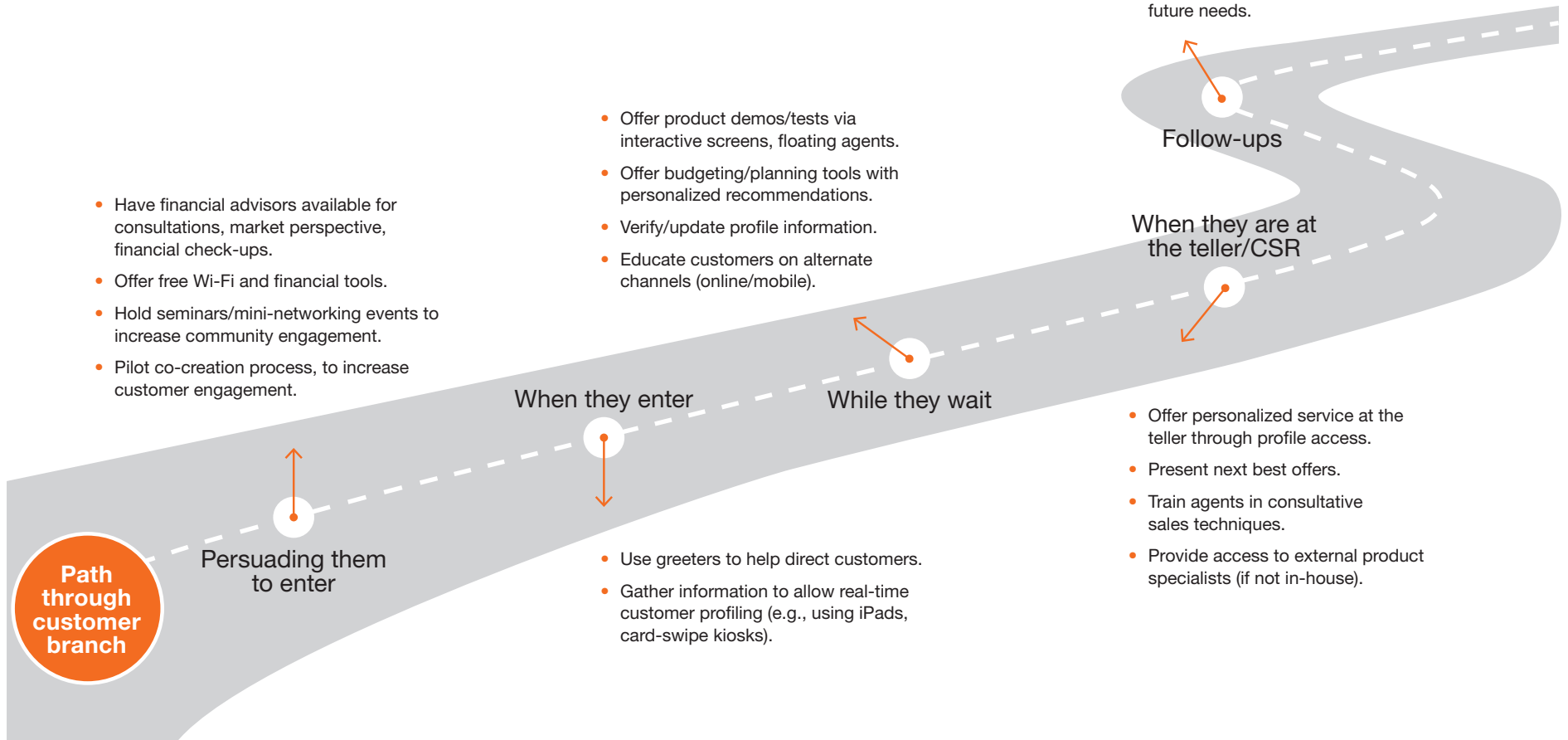
The desired customer experience design then influences the mix of branch models selected, individual branch design, operating model, and cross-channel capabilities required to implement the branch strategy.

“Who are we and what kind of bank do we **want to be?”**

“How do we become that bank?”



Most banks find that branch transformation is a long-term pursuit. To increase branch value in the short term, many banks are implementing complementary, smaller-scale initiatives in parallel with their branch transformation.



Competitive intelligence



*Our observations of
industry practices.*

Leading banks are transforming their branch networks to increase foot traffic, reshape the customer experience, optimize their geographic reach, and boost sales.

Experimenting with flagship stores and self-service branches to increase customer traffic and engagement



A global financial institution opened **flagship branches** in select markets around the world. The branches' physical design was created to deliver an engaging retail experience while providing innovative ways for customers to bank. Some of the branch features include:

- A massive media wall that provides financial information as well as current news—all in an interactive format
- A touch-screen sales area that lets customers browse the company's offerings; customers can apply for loans through the screens or scan the information to their phones
- An area for customers to hold a private video conference with a remote advisor
- Free Wi-Fi
- A centrally located area staffed with employees to assist those customers who want hands-on service

A Danish bank set out to create a **shopping experience** for its customers, aiming to make banking **interactive and casual**. It placed coffee bars at the front of the branch, strategically positioned next to the bank's large exterior windows, inviting customers to enter. The inside of the modern branch includes:

- An employee standing behind a counter-height station to greet customers as they enter and direct them to their desired location
- A main desk where customers can perform banking transactions
- Financial products for sale in physical packages; stations prominently located in the middle of the branch house the packaged products and customers can scan the barcodes to access online presentations about each product at the stations' computer terminals
- Conference rooms with touch screens that advisors can write on as they have a discussion with customers

A global bank is using **innovative technology** to provide customers with high-tech convenience for their banking needs. The bank offers:

- A choice between self-service tellers (most with 24-hour access) and traditional, in-person tellers
- Paperless transactions
- The ability for customers to be issued a debit card at the branch, without having to wait for it to arrive in the mail
- Video conferencing with bank specialists—available in multiple languages—for banking, loans, investments, and other services

Leading banks are transforming their branch networks to increase foot traffic, reshape the customer experience, optimize their geographic reach, and boost sales. (continued)

Reshaping the customer experience by offering more advice-based sales and introducing relationship-building activities



A leading discount brokerage delivers a personalized customer experience while managing costs by focusing heavily on technology. One-third of accounts are opened in branches. The branch sets up **electronic accounts for its customers, starting with collecting customers' electronic signatures when they open their accounts.** Customer information is shared between the various channels, including the call center and the branch. With their electronic accounts set up, 90% of customers trade online. Branches support relationship-based investing, but much of the guidance and advice is delivered electronically, with call centers and branches supplementing the online channel to provide a seamless customer experience.

A regional bank establishes strong ties in the communities it serves. Tellers and branch managers get to know their customers by name and the bank serves as the gathering spot for **community meetings and events.** The goal is to make banking an engaging experience by focusing heavily on customer service and providing a community feel.

One of its branches, with state-of-the-art technology, is being used to test innovations. The innovation branch features:

- Product walls with touch-screen technology
- A wall that serves as a community information center, providing details on local events, volunteer opportunities, and other community activities

- Technology that virtually connects customers with financial advisors
- An area with laptops so customers can try out online banking solutions or surf the Web
- The ability for local businesses to display their merchandise

Leading banks are transforming their branch networks to increase foot traffic, reshape the customer experience, optimize their geographic reach, and boost sales. (continued)

Strategically reviewing their branch footprint and considering ways to maintain geographic reach without adding significant cost



A **Midwest bank** has employed a strategy to build branches at corporate headquarters and factories. It has branches at dozens of office campuses, providing customers with the convenience of banking where they work. The bank has also been innovative in using small spaces—in one case, transforming a space used for vending machines into a bank branch.

A **large, global financial service provider** created a self-service section in its branches that offers a range of specialized options including cash withdrawals, check deposits, business deposits, and currency exchange. Customers can access these services 24 hours a day. A separate area in the branch also provides kiosks for customers to use online and telephone banking services.

A **bank** announced plans to open more than 100 branches in supermarkets statewide, a move that gave the organization more branches in the state than any other bank.

Using cross-selling and compensation structure to boost sales and enhance customer experience



A **leading bank** uses a structured cross-selling approach, averaging about six products per customer. The bank's financial advisors and licensed bankers share a customer profile platform and work in teams to serve the bank's customers. Employees spend time with new customers to discuss information such as retirement goals and insurance needs, and input this information into the profile system. When meeting with customers, bankers have access to the profile and can leverage it to see what products or services that customer might need. The bank also redesigned its compensation structure—branch and regional goals are shared, and tellers are incented for referrals.

A **community bank** recently rolled out a front-line sales effectiveness solution to monitor performance and behaviors of its front-line sales associates, backed by training and coaching. The result: a 23% growth in cross-sale rates and a doubling of sales-lead conversions, from 20% to 40%.


A deeper dive into branch strategies
















*How does your bank compare?
Leading, on-par, and lagging practices.*

Banks target various customer segments and brand propositions, but few leverage the full potential of customer analytics and segmentation to inform their distribution strategies.

Leading practice areas	What we observe in the industry		
	Bank A	Bank B	Bank C
Brand proposition	<p>This regional financial institution focuses on small businesses and commercial customers, and provides personal banking services to employees through those relationships.</p>	<p>This regional bank primarily targets mass-market and mass-affluent clients. It also operates mortgage facilities, high-net-worth private banking, and small-business facilities.</p> <p>A core element of the bank's strategy is leveraging customer brand loyalty to drive deeper relationships and increase product holdings.</p>	<p>One of the top 15 banks in the United States, this regional financial institution goes to market as a community-oriented bank. It offers both consumer and commercial products.</p> <p>A brand campaign was recently launched to reinforce this bank's focus on customer service and community.</p>
Customer experience	<p>The bank views every branch interaction as a sales opportunity. The bank would like to drive more branch volume, but has not advanced to channel-specific segmentation, which would allow the bank to effectively target its branch interactions.</p>	<p>Customer segments have been defined based on their characteristics, buying propensity, and servicing preferences. However, segments have not driven operational strategy in terms of managing channel activity.</p> <p>The bank has invested in customer analytics, but its capabilities in this area are immature relative to its peers.</p>	<p>The bank has a customer-analytics team that is an integral part of the customer-experience function. It has launched an initiative to refine its customer-segmentation schema.</p> <p>The bank tracks customer usage across channels, but it does not capture preference, use analytics, or leverage customer-usage information to make channel decisions.</p>

















 Leading
  On Par
  Lagging


Leading banks still view the branch as a primary driver of customer relationships, but they are also exploring other service-delivery models.

Leading practice areas	What we observe in the industry		
	Bank A	Bank B	Bank C
Branch network	<ul style="list-style-type: none">  The bank strongly believes that the branch will continue to be the primary relationship driver for the consumer and small business.  Unlike the bank's focus on sales via the branch channel, it does not view digital channels as primary sales channels.  The institution continues to grow its branch network—primarily through traditional full-service branches and in-store locations. It has partnered with several supermarket chains and corporations to provide custom branch locations to serve customers where they live and work.  The bank also applies a community-center approach, targeting the small-business segment in particular.  Development of a branch model to serve the needs of the affluent market is also being considered. 	<ul style="list-style-type: none">  The branch network remains the core element of the channel offering, being both the bank's largest source of revenue and its largest source of costs.  The bank believes that a channel-integration strategy cannot progress until the performance of individual channels improves. <p>The branch strategy is focused on:</p> <ul style="list-style-type: none">  Progressively redeveloping sites and optimizing branch configurations, including traditional “brick-and-mortar” and in-store banking  Implementing new roles and performance training to provide clarity of accountability and performance expectations  Using capacity available as a result of reduced transactional volumes to deepen relationships and drive greater share of wallet per customer  Considering driving additional traffic from other channels into branches to leverage capacity in-store 	<ul style="list-style-type: none">  The bank's customers continue to engage primarily through its branches—both in-store and full service. However, the quality of service has declined due to outdated technology and a misaligned staffing model.  The bank is moving away from a unit-based mentality to a relationship-building and needs-based mentality. It is focused on getting the right products for the customer and training bankers to get them to the next level of servicing the customer.

 Leading
  On Par
  Lagging

Most banks have right-sized their branch staff and locations in line with declining demand. Leading banks are looking to maximize utility by updating skill sets and deploying new technology.

Leading practice areas	What we observe in the industry		
	Bank A	Bank B	Bank C
Branch design and operating model	<ul style="list-style-type: none">  The bank recognizes that branch volumes are declining and has right-sized staff in line with demand. However—since the bank still needs to support a customer experience and service level for the brand—branch staff exceeds “minimum” levels.  The bank uses a decentralized approach to promotions, giving branches significant local autonomy and the ability to adapt to local conditions.  The bank is piloting iPads for bank agents, as well as technology similar to Skype for connecting with experts.  Since the bank views every visit as a sales opportunity, it has focused on cross-training tellers to support more sales.  The bank cannot afford to have specialists at every branch, but it has added experts where individual branch needs justify them.  The bank does not have a centralized channel strategy or a customer-experience team. 	<ul style="list-style-type: none">  Branch volumes have been declining, and both staff and locations have been reduced accordingly.  Rather than focusing purely on branch and branch-staff reduction, the focus going forward is on right-sizing branches, choosing the right locations, and optimizing capacity.  The bank has developed new branch designs that will be introduced across the network starting in 2013. The designs emphasize self-service within targeted branches, which will free up staff to focus on other value-adding or relationship-building activities.  To improve relationship selling, the bank is deploying the role of universal banker—staff who handle both teller- and customer-service functions—in all traditional branches.  The bank has created a channel-strategy role to create alignment across channels and to develop a unified distribution strategy. 	<ul style="list-style-type: none">  The bank is currently in the process of implementing a branch-transformation initiative. It recently piloted video-conferencing technology in some of its branches. It is also installing intelligent depositing machines across the network as an option for customers.  The bank has also recently opened a flagship store to showcase its capabilities and attract more high-end customers.  To align incentives more closely with performance indicators, the bank recently completed a compensation review for its branch staff.  The bank is in the process of upgrading its teller platforms and stations to meet industry standards.  The bank recently created a customer-experience function to support enterprise-wide customer research and experience development, problem resolution, reporting, and analytics. This function will liaise with product and channel groups to create a coordinated customer experience.

 Leading  On Par  Lagging

A framework for response



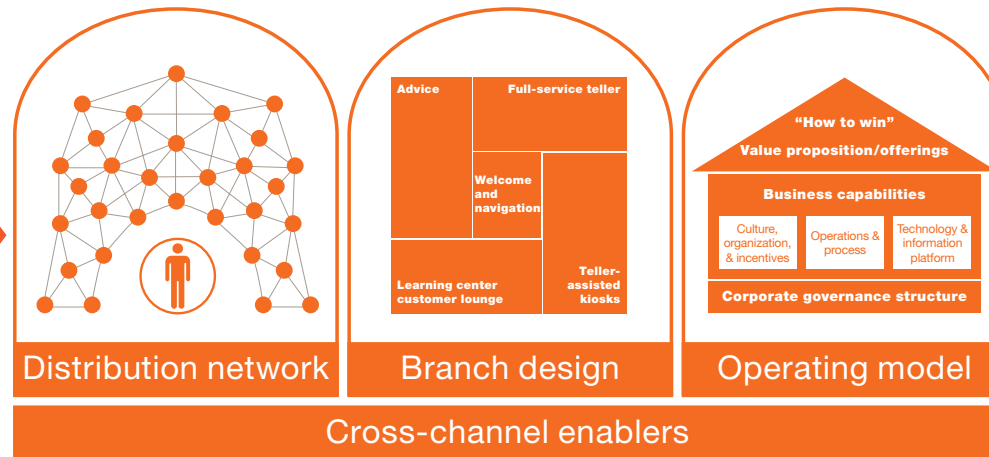
*Our recommended approach
to the issue.*

Develop a plan to redesign and integrate branches within a multi-channel strategy.

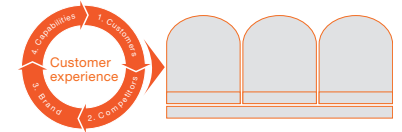
Begin by focusing on the customer experience, answering the critical question: Who are we and what kind of bank do we want to be? Then leverage that analysis to build the holistic branch strategy.

“Who are we and what kind of bank do we want to be?”

“How do we become that bank?”



To develop the right branch strategy for the future, analyze four key factors that influence the customer experience.



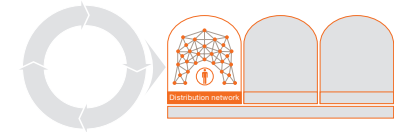
Four key factors influence the customer experience

1. **Customers**—Align branch models to the needs and behaviors of customers in each market, reflecting customers’ channel and product preferences. Traditional indicators, such as age and education, may be less predictive than psychographic and behavioral attributes.
2. **Competitors**—Consider the strategic focus and initiatives of peers in order to meet or exceed expectations across markets. Consider emerging trends and ideas that could be incorporated into the go-to-market strategy.
3. **Brand**—The branch network should reinforce the brand and communicate the brand promise (i.e., what customers should expect from interactions with the bank’s people, products, services, and overall organization). The brand will permeate all branch decisions, starting with the selection of branch models.
4. **Capabilities**—Consider contact center and direct channel maturity and functionality, talent management capabilities, and the level of integration across customer data and bank technology that supports the experience at the branch.

Consider the following questions related to each factor

- Who are our primary customers?
- How comfortable are customers with technology to support self-service activities? How active are they on digital channels? How much do they rely on cash and checks?
- Are customers financially savvy? Do they actively seek advice from experts to manage their finances?
- How complex are the banking needs of the customers in this market?
- Are our main competitors national, regional, or local?
- What are the main branch models utilized by competitors? What initiatives/strategies are competitors employing?
- What is the branch density of key competitors? What is the market share of our top three competitors?
- What do we stand for (e.g., convenience, innovation, superior service)?
- What type of customers should we attract?
- Do our direct channels have the functionality and scale to support a smaller physical footprint?
- Do our IT systems support various branch designs in order to provide a consistent experience?
- Do our personnel have the necessary skills to provide advisory services and drive sales?

Choose the appropriate mix of branch model(s) to support the branch strategy and customer-experience design.

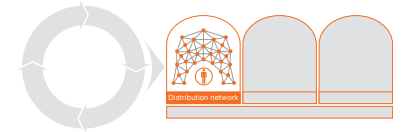


	Assisted self-service kiosks	On-site/In-store locations	Full service	Community centers	Flagship stores
Key objective	<ul style="list-style-type: none"> Efficiency and convenience Primarily support customer transactions 	<ul style="list-style-type: none"> Efficiency and convenience Fit within customer's daily life; deliver in-person interaction 	<ul style="list-style-type: none"> Utilitarian sales and service support One-stop banking Personal touch; privacy 	<ul style="list-style-type: none"> Community relationship building. Customized experience based on community or customer focus 	<ul style="list-style-type: none"> Sales and advisory expertise Pilot new technology Showcase capabilities
Customer focus	<ul style="list-style-type: none"> Self-service consumer Customers with heavy reliance on cash Small-business deposits and withdrawals 	<ul style="list-style-type: none"> Busy consumers who value staff support to complete basic transactions 	<ul style="list-style-type: none"> "High-touch" consumers who value face-to-face interactions and privacy Small-business customers with complex needs 	<ul style="list-style-type: none"> Defined by neighborhood. Can have a mix—e.g., older and younger; more tech-savvy consumers, small-business focus. Specific customer segments 	<ul style="list-style-type: none"> Sophisticated, tech-savvy consumers
Sales	<ul style="list-style-type: none"> Limited: Simple retail products 	<ul style="list-style-type: none"> Limited: Simple retail products 	<ul style="list-style-type: none"> Retail and customer products Specialty offerings, potentially provided through rotating staff and telepresence 	<ul style="list-style-type: none"> Product suite adapted specifically to the community served On-site specialists and advisors based on community/customer relationship managers 	<ul style="list-style-type: none"> Full retail, investment, and advisory products On-site expertise across all banking needs, with emphasis on consultation
Service	<ul style="list-style-type: none"> Full services supported by "roaming" tellers All transactions, including bill pay and deposit capture 	<ul style="list-style-type: none"> Basic agent-supported transaction services 	<ul style="list-style-type: none"> Full range of services, supported by tellers and ATMs 	<ul style="list-style-type: none"> Self-service areas, with teller support de-emphasized 	<ul style="list-style-type: none"> Contact-center link; self-service kiosks; limited assisted servicing
Relationship building	<ul style="list-style-type: none"> Limited, through referrals to other branches/channels 	<ul style="list-style-type: none"> Limited, through referrals 	<ul style="list-style-type: none"> One-on-one staff interaction 	<ul style="list-style-type: none"> Community engagement—e.g., classes and outreach Customer networking events 	<ul style="list-style-type: none"> Expert/innovation-driven interaction
Geographic presence	<ul style="list-style-type: none"> Urban/suburban markets Areas with high foot 	<ul style="list-style-type: none"> Primarily suburban locations with limited rural reach Based on store/corporate office franchise footprint 	<ul style="list-style-type: none"> Rural/suburban locations, excluding high-affinity neighborhoods—e.g., industrial parks' high auto traffic 	<ul style="list-style-type: none"> Urban and suburban, in areas with strong community affinity and high customer concentration Areas of high foot traffic, where people congregate 	<ul style="list-style-type: none"> Urban locations in high-density areas High profile, strategically placed stores
Hours of operation	<ul style="list-style-type: none"> 24/7 	<ul style="list-style-type: none"> Dependent upon store hours 	<ul style="list-style-type: none"> Typically Monday-Friday, 8am–5pm, with some locations open later 	<ul style="list-style-type: none"> Hours based on community need; more focus on convenience 	<ul style="list-style-type: none"> Typically 7 days a week, 10am–7pm, with some locations open later

Design an optimized distribution network that supports the needs of the local market and scales to the density of the market opportunity.

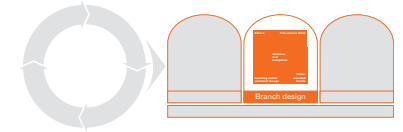
An optimized distribution network will meet two key objectives:

- Facilitating customer awareness by delivering at the point of customers’ needs
- Minimizing the cost of delivery by:
 - Limiting the number of high-overhead facilities, including full-service branches and flagship stores
 - Leveraging lower-cost options such as self-service kiosks and in-store locations, where possible

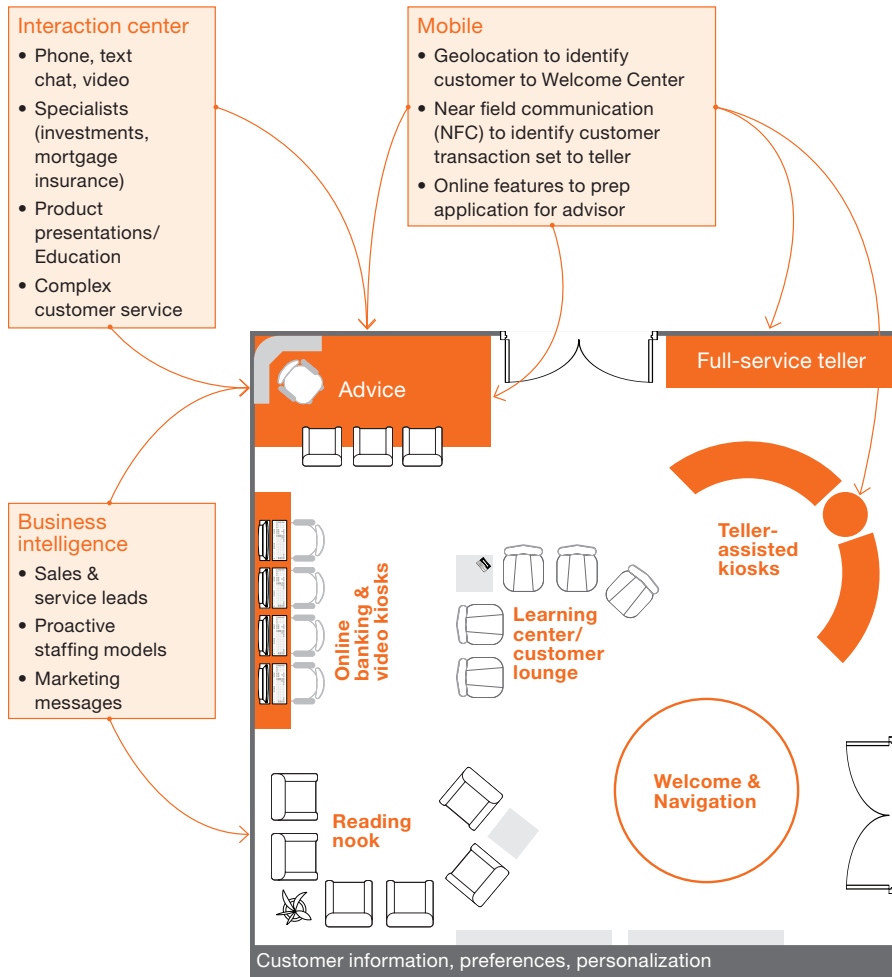


Local market analysis	Key questions
Customer segments	<ul style="list-style-type: none"> • What segments exist and where are they concentrated? • What products do customers own? • What are customers’ channel preferences?
Population density	<ul style="list-style-type: none"> • How many potential clients are in the market? • Is this a residential, industrial, and/or mixed-use area?
Market growth	<ul style="list-style-type: none"> • Is the market expected to grow, and if so, at what rate? • What industries exist in the market? • What is the concentration of small- and medium-sized enterprises?
Existing branch density	<ul style="list-style-type: none"> • What is the current footprint of the bank and the competition? • Is there over-penetration or under-penetration? • What are the branches really being used for? • Can we expand our presence through the use of alternate channels (e.g., ATMs, online, mobile)?
Competitor capabilities	<ul style="list-style-type: none"> • What are the strengths of our key competitors?

Develop intuitive, experience-driven individual branch designs, based on an understanding of customer needs, behaviors, and usage.



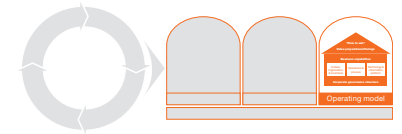
Example of modular branch design



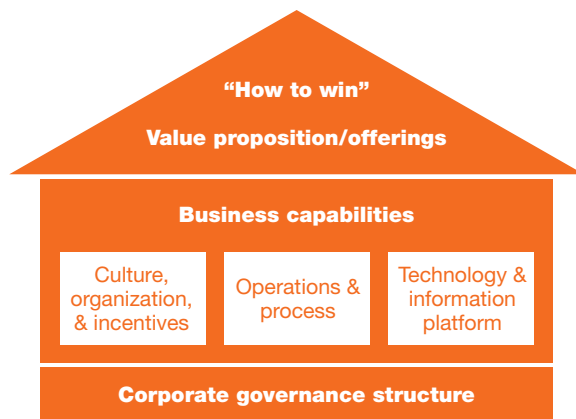
Consider the following factors in your branch design:

- 1. Purpose of branch visits.** Gain a clear understanding of your customer segments, why customers are visiting the branch, the traffic flow of customers within the location, and the primary objective of the branch model chosen.
- 2. Spectrum of services.** Based on the local market served and the objective of the branch model, determine which products and services you will offer to clients at that branch location.
- 3. Physical location and size.** Based on the branch model chosen, select the appropriate location within high-density areas or prominent locales, taking into consideration the space required for the various types of branch models and the appropriate allocation of space for transactions versus sales and advisory services.
- 4. Design that supports utility and relationship building.** Manage traffic flow to balance convenience and self-service transactions with the objectives of building relationships and providing advisory services.
- 5. Interaction technologies to support client needs.** Equip advisory staff with next-generation customer recognition and profiling, tracking, personalization capabilities, and the capability to hold video conferences with virtual advisors.
- 6. Modular design.** Make the branch design flexible to adapt to evolving customer trends and technology enhancements.

Redefine the operating model—including the organizational structure, branch processes, and infrastructure—to support the branch model and network design.



Components of the branch operating model



The branch operating model consists of the following components

Value proposition/ offering

- Identify the core competencies required to deliver the value proposition and “win” in each branch model.
- Update the economic model for branches to align with new business objectives and a multi-channel environment.

Culture, organization, and incentives

- Create a “one bank” culture that emphasizes coordination and collaboration.
- Realign the branch staffing model including the number of FTEs and skills.
- Enhance training to create deeper and broader skills and provide cross-training to create staffing flexibility.
- Redesign incentives to align employee behaviors with business objectives.

Operations and process

- Create process variances to account for different branch models.
- Streamline and automate front-office processes to create more time for customer interaction.
- Align key performance indicators and operational dashboards.

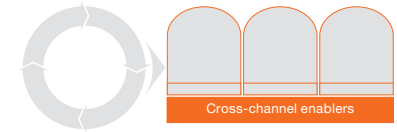
Technology and information platform

- Provide access to 360-degree view of customers.
- Deploy integrated teller and agent desktops.
- Introduce telepresence, intelligent call routing, and remote image capture.

Corporate governance structure

- Create a centralized customer-experience/channel management function.
- Develop a comprehensive, multi-channel distribution strategy.

Regardless of the branch-model mix, develop cross-channel enablers to deliver a seamless and consistent customer experience.



<p>Cross-channel sales and service</p> <ul style="list-style-type: none"> • Seamless processes across channels, with efficient hand-offs • Consistent messaging across physical and digital channels 	<p>Lead and offer management</p> <ul style="list-style-type: none"> • Lead tracking, qualification, and proactive follow-up • Right offer at the right time through the right channel • Needs anticipated based on recent interactions 	<p>Advisory support</p> <ul style="list-style-type: none"> • Timely advice for complex products • Customer dashboards to increase advisor effectiveness • Integrated self-service advisory tools 	<p>Enterprise problem resolution</p> <ul style="list-style-type: none"> • Effective case management across channels • Service level agreements to support proactive issue resolution • Root-cause analysis to identify business-process improvement opportunities
<p>Knowledge management</p> <ul style="list-style-type: none"> • Central repository of policies, procedures, operational processes, and leading practices • Self-service channels automatically answer customer queries 	<p>Coordinator customer experience</p> <ul style="list-style-type: none"> • Centralized customer experience management across all touch points • Structured customer-journey maps • Integrated channel design and evolution 	<p>360-degree view of customer</p> <ul style="list-style-type: none"> • Single view of customer, including all interactions, products, services, and channels • Centrally managed customer data and preferences 	<p>Business intelligence</p> <ul style="list-style-type: none"> • Continuous reporting on voice of the customer, data analysis, and processes • Precognitive analytics to drive product offers and campaigns

How PwC can help



*Our capabilities and
tailored approach.*

What makes PwC's Financial Services practice distinctive?

Integrated global network

PwC's Financial Services practice consists of more than 34,000 industry-dedicated professionals worldwide, including more than 4,500 in the United States. They serve large and multinational banks, insurance companies, investment managers, broker-dealers, hedge funds, and payments organizations. The US Financial Services practice is part of the PwC global network of firms, which has clients in more than 150 countries.

Extensive industry experience and resources

PwC serves more of the largest and most complex financial services companies than any other firm. We understand from personal experience the wide variety of business issues that affect the industry, and we apply our knowledge to our clients' individual circumstances. Moreover, our large, integrated global network of industry-dedicated resources enables us to apply this knowledge on our clients' behalf whenever and wherever they need it.

Multidisciplinary problem solving

The critical issues financial service companies face today affect their entire business. Addressing these complexities requires both breadth and depth, and PwC service teams include specialists in risk management, compliance, technology, business operations, finance, change and program management, data and business analytics, economics and analysis, internal audit, tax, forensics, and investigations.

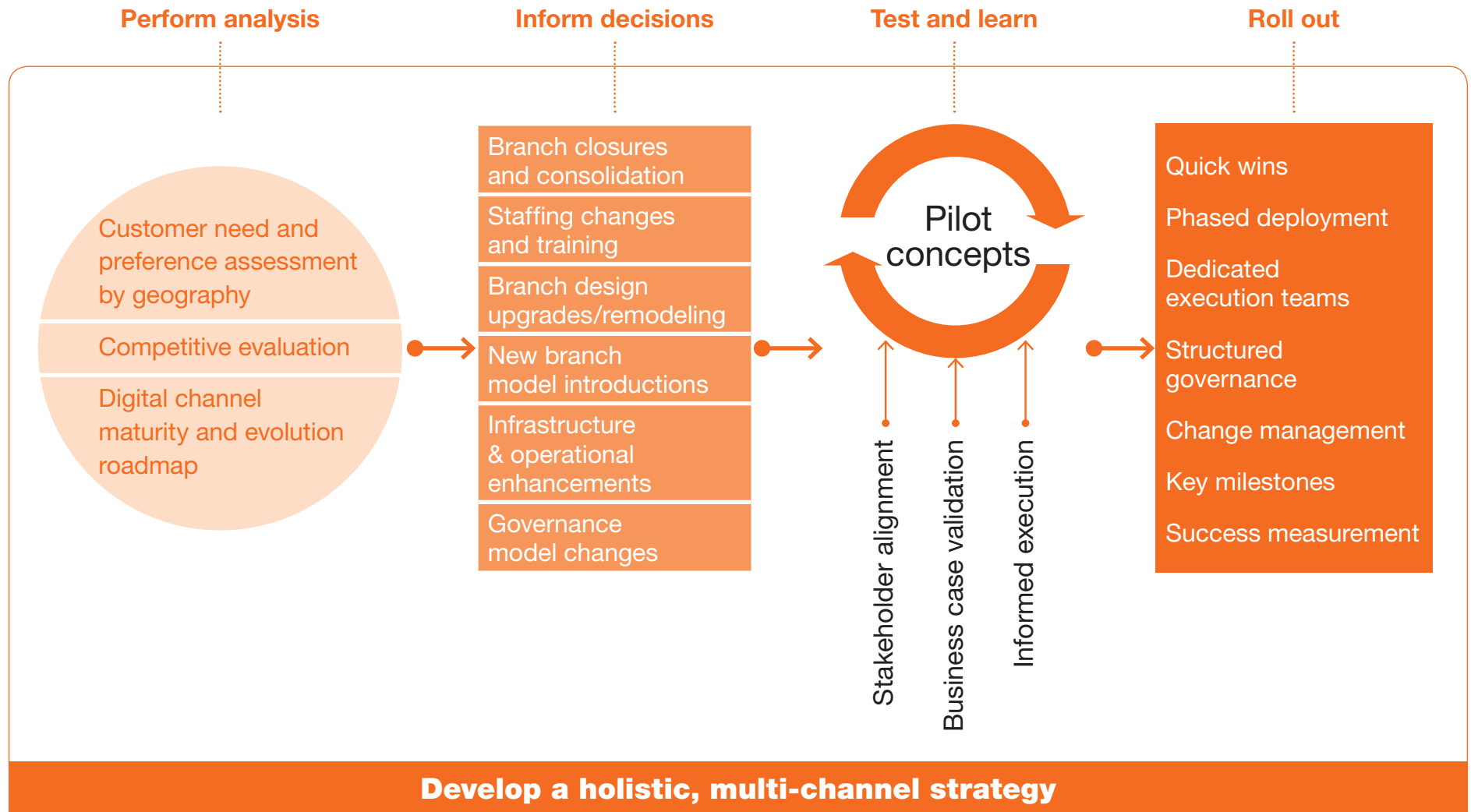
Practical insight into critical issues

In addition to working directly with clients, our practice professionals and PwC's Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients new intelligence, perspective, and analysis on the trends that affect them.

Focus on relationships

PwC's size, financial stability, and 150-year history all contribute to our long-term view of client relationships. We help clients translate strategy into action by helping them address their challenges in finance, tax, human resources, operations, technology, and risk and compliance.

PwC can help you deploy a thoughtful approach to prepare for the branch network transformation that is essential to keep branches relevant in the future.



PwC recognizes that each organization will travel down the path of change differently. PwC works with our clients to find that path and to help establish organizational support to sustain a long-term strategy.

Branch health diagnostic

PwC will conduct a quick current-state assessment of your branch network, which will include an evaluation of productivity and utilization. We'll also benchmark capabilities against competitors and customer needs in the local market to support your development of a future target model and build a business case for change.

Holistic branch strategy

PwC will work with you to design your customer experience based on analytics, competitive evaluation, and internal capability assessment, and leverage that insight to inform the future branch strategy. We can also help integrate the branch strategy with the multi-channel strategy. We do this by identifying robust business capabilities, such as customer-relationship management, lead and offer management, and problem resolution, to support multi-channel sales and service offerings. In addition, we develop an execution roadmap identifying initiatives and priorities for the bank to deliver on its future vision.

Customer analytics to inform customer-experience design

Customer analytics leverages demographic, interaction, and behavioral data to identify potential gaps and opportunities for improvement from the customer perspective. We can help you develop a better understanding of your customers' needs and preferences, and prioritize investments and projects focused on delivering increased value for both the customer and the bank.

Demand Estimator to design branch network of the future

PwC's Demand Estimator uses our proprietary statistical techniques to identify market potential by product and channel. It does this by integrating internal client data and external proprietary information. The tool can be used to develop insights at the ZIP code level and inform the distribution strategy, size, and density of the branch network required; branch model selection; and branch design at the local market level.

Branch economic analysis and scenario planning

With changing customer demands and expanding regulatory oversight, several factors continue to create uncertainty for banks. Economic analysis and scenario planning help banks proactively anticipate and plan for future challenges and outline potential mitigation tactics and opportunities to improve branch ROI in the future. The analysis can also be leveraged to anticipate bottom-line impact of branch-related initiatives.

Co-creation for branch service quality enhancements

Co-creation goes beyond traditional strategy by taking a holistic, dynamic perspective. We can help you build on the role of the bank as a community and local-economy builder, leverage branches as community-engagement platforms, work with customers to identify what they're satisfied and dissatisfied with, and make recommendations for improving branch service quality.

Enhanced branch talent management

We will leverage our "people and change" experience, working with you to develop recommendations for improving the branch sales culture through skill realignment, updated hiring strategy, training, and compensation/incentive restructuring.

Addressing your needs



We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.

Client needs	Issues that PwC helps clients address
Innovate and grow profitably	<ul style="list-style-type: none"> Identify growth opportunities, including new markets and target segments, and create product and pricing ideas. Understand customer behavior and preferences to improve product development, pricing, distribution, and promotion strategies. Leverage digital transformation on front- and back-office operations. Capture opportunities to increase margin, cross-sell, and up-sell. Realize financial institution growth in the face of increased regulation. Expand and sustain business innovation.
Build effective organizations	<ul style="list-style-type: none"> Translate boardroom strategy into achievable business design. Align the operating model to a rapidly changing business landscape. Optimize organizational structures to drive the most customer value. Realize competitive advantage through effective sales and service operations redesign. Enable successful outcomes of inorganic and organic growth through organizational design, workforce optimization, and change management.
Leverage talent	<ul style="list-style-type: none"> Define a talent-management strategy based on business objectives and goals identifying required skills, resource demand, and compensation. Attract and retain top talent to create a competitive edge. Redesign compensation and incentives to support desired behaviors. Use strategic communications to reinforce your value proposition to internal and external stakeholders.
Reduce costs	<ul style="list-style-type: none"> Redesign business processes and leverage technology to realize efficiencies. Go beyond short-term expense reduction to achieve lasting efficiencies and operational productivity while maintaining service quality. Execute successful capital projects and create sustainable infrastructure.
Manage risk, regulation, and financial reporting	<ul style="list-style-type: none"> Build a risk-resilient organization. Plan for the uncertainty associated with anticipated regulation. Respond to a crisis. Assess and mitigating risk in global business operations. Identify capabilities, operating model, and governance structure changes required to comply with new regulations and improve risk management at the firm. Manage ERP investment and project execution risk.

Appendix



Select qualifications.

European bank— Reinventing the retail branch through co-creation

Issues

As part of its overall strategy to regain consumer confidence and improve its financial performance, a European bank set out to rethink the role of its branch offices. Management engaged PwC's Experience Co-Creation Partnership to conduct a pilot project with one of the bank's regional locations and two of its branch offices—one city and one rural—as well as with the professional business customers in each of these communities.

Approach

The project comprised a one-month preparation phase and an eight-week engage and design phase. During the preparation phase, we worked with bank leadership to scope the project; develop initial ideas for communities; select the pilot region and branches; line up the corporate, regional, and branch resources for the steering and project team; and hold training and planning meetings.

During the engage and design phase, we mobilized bank advisors to engage some of their customers with the goal of building communities. We held interviews to identify potential communities and started growing community networks. We then conducted co-creation workshops with network participants to test hypotheses for the most promising ideas to emerge from the interviews, and to envision what the communities could look like, what co-creation platform they could use, how they could grow, and the benefits that they would likely bring.

Benefits

The bank improved its image and was perceived as a driver and supporter of the local economy. The project validated the bank branch as a powerful platform for community engagement and dialogue—not just with the bank, but also between bank advisors and their clients. An overall value model identified the benefits generated for stakeholders and detailed business cases, including quantitative estimates of the potential financial value to be generated by the bank from each community. Further, the bank was able to institutionalize its capabilities for ongoing co-creation efforts.

Top US bank— Customer-centric channel strategy

Issues

A leading US bank's retail-bank customers were increasingly seeking a well-coordinated, cross-channel experience, tailored to their needs. In response to these escalating consumer demands, competing institutions were aggressively embarking on channel-integration initiatives designed to improve retention and increase customer value.

Recognizing the need to undertake its own customer-centric channel strategy initiative, management's goal was to enhance the customer experience, drive operating efficiency, and position the bank to capitalize on emerging growth opportunities. However, a current-state review of the bank's retail channels revealed a disjointed customer experience stemming from channel-specific processes, redundant technology, and conflicting incentives. The bank sought assistance in planning an effective multi-channel integration effort.

Approach

In phase one, PwC created a list of customer-facing and operational capabilities that would enable the bank to meet its strategic, multi-channel objectives. We collaborated with the client to develop and prioritize specific initiatives designed to integrate the customer experience across the organization.

During the second phase, we helped the bank develop a future-state technology reference architecture that provided a framework for making technology investments. The team also helped create an implementation roadmap designed to deliver specific initiatives to each individual line of business over 36 months.

Benefits

The entire program is expected to improve the bank's operating margins by 2% to 4%. In addition, the prioritized set of initiatives created in phase one is improving the bank's return on investment by:

- Raising customer service and retention rates
 - Improving product flexibility and enabling faster time-to-market
 - Enhancing profitable customer cross-sell
 - Lowering overall infrastructure costs
-

Fortune 100 card issuer— Customer-experience design

Issues

A Fortune 100 company aimed to exceed its competitors by delivering an exceptional customer experience. However, because its current customer experience was defined within individual product and channel silos, there was little alignment across the business. The bank sought PwC's advice and assistance for strategic planning, mobilization, and execution to achieve its goal of best-in-world customer experience.

Approach

PwC collaborated with the client to define a future-state vision designed to improve the company's customer experience. The future state was described through a set of 14 business capabilities, along with the required technology architecture.

We worked with the client to design and implement a plan for arriving at the future state within three to five years, providing value with each initiative or release along the way.

Benefits

The client realized improved capabilities in two key areas: customer-contact history and a single view of the customer. These two improvements alone have yielded \$10 million in annual benefits.

Super-regional retail bank—Branch process redesign

Issues	A super-regional bank was experiencing higher operating expenses than its competitors. As a result, the bank was lagging in both efficiency and service quality. Among several other operating problems, the bank was fragmented in its approach to processing new accounts and servicing existing accounts, with customer requests often taking days to process.
Approach	PwC worked with the client to evaluate current-state processes. Through workshops, interviews, and analysis, the team documented more than 100 opportunities that would improve customer service and/or branch efficiency. After evaluating each opportunity across various dimensions, including customer impact, risk, and efficiency savings, we helped create an implementation plan in line with the bank's resource availability. We helped oversee the immediate implementation of approximately 10 initiatives and worked with the client to develop a roadmap to reduce operating expenses and improve the customer experience.
Benefits	By streamlining branch processes, better defining branch support functions, and transitioning non-customer-facing responsibilities out of the branches, the bank realized an annual savings of approximately \$5 million and reallocated more than 700,00 hours of branch staff time.

www.pwc.com/fsi

*To have a deeper conversation,
please contact:*

Dean Nicolacakis	konstantinos.v.nicolacakis@us.pwc.com +1 415 498 7075
Linda Najim	linda.najim@us.pwc.com +1 678 419 1836
Stephen G. Whitehouse	stephen.g.whitehouse@uk.pwc.com +44 020 780 41011
Steve T. Davies	steve.t.davies@uk.pwc.com +44 (0) 131 260 4129
Kanika Thakar	kanika.thakar@us.pwc.com +1 646 471 8090
Eileen Perrin	eileen.f.perrin@us.pwc.com +1 704 344 4113

*To have a deeper conversation,
please contact:*

Robert A. Moellering	robert.a.moellering@us.pwc.com +1 314 206 8013
Nupur Kalgaonkar	nupur.kalgaonkar@us.pwc.com +1 678 419 1640
Marilena Stavrides	marilena.stavrides@us.pwc.com +1 415 498 6143
Patty Mears	patty.c.mears@us.pwc.com +1 646 471 3976
Sandeep Gupta	sandeep.gupta@us.pwc.com +1 267 330 1878
Nathan E. Parry	nathan.e.parry@us.pwc.com +1 617 530 7112

Follow us on Twitter @PwC_US_FinSrvcs

"Rebooting the branch: Reinventing branch banking in a multi-channel, global environment," PwC FS Viewpoint, December 2012. www.pwc.com/fsi

© 2012 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the US member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

NY-13-0035