

A low-angle, upward-looking photograph of several trees with vibrant green leaves. The sun is shining brightly from the upper right, creating a lens flare and illuminating the scene with a warm, golden light. The tree trunks and branches are silhouetted against the bright sky.

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Getting real about  
branch transformation  
How to reinvigorate  
branch strategy

Deloitte Center  
*for* Financial Services



# Eyes on the prize, feet on ground

A seamless customer experience across both physical and digital channels is quickly becoming table stakes. The industry has largely embraced this construct, and many institutions have already made meaningful investments toward this goal.

However, bridging the gap between the physical and the digital likely will be neither smooth nor swift, and many banks are understandably concerned about this journey. The need to manage this transformation comes at a time when firms are already grappling with a myriad of other challenges including increased regulation, tepid loan growth, and new competition.

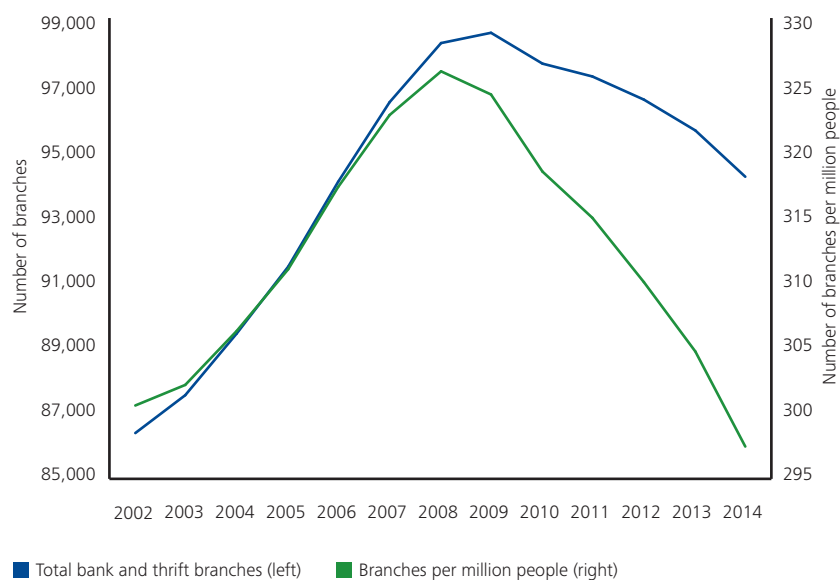
Branches—the oldest and most expensive banking channel<sup>1</sup>—are under a great deal of pressure in this environment. They must adapt to the reality of decreased foot traffic and declining transaction volumes as customers increasingly migrate to digital channels, and as a result, spur higher costs per transaction.<sup>2</sup> US banks and thrifts reduced their total branches by more than 1,500 in 2014, the highest annual reduction on record.<sup>3</sup> More importantly, the gradual decline in the total number of branches since 2009 has translated into substantially lower branch penetration (see Figure 1).

Yet branches still have a lot going for them. First and foremost, they are the frontline for personal engagement with customers, facilitating loyalty through trusted, face-to-face interactions. This is especially true of business customers who place a premium on in-person exchanges and enduring relationships.<sup>4</sup> Branches also remain vital in defining brand image; they are likely the most tangible representation of a bank's personality, capabilities, and service culture to employees, clients, and the communities served.

Secondly, branches are an important source of high-quality retail funding—a key competitive differentiator, especially with new liquidity rules coming into effect. Convenience of branch location continues to be the single most-cited reason customers choose banks for their main checking account.<sup>5</sup> And customers overwhelmingly prefer visiting a branch to open accounts, apply for a loan, or seek financial advice.<sup>6</sup>

Lastly, branches are still the primary channel driving higher sales per interaction, as more servicing moves to digital channels. Playing to these traditional strengths, while also improving customer experience through empowered branch staff, integrated customer engagement solutions, and a focus on digitizing the in-branch experience can help banks deliver greater value through their branch networks.

**Figure 1: US branch statistics**



Source: SNL Financial, Deloitte Center for Financial Services analysis

An important factor in reinvigorating branch strategy is a clear understanding of customer needs and expectations. This allows banks to articulate the customer journey—essentially a depiction of the targeted customer experience—and further help drive decisions to invest in technology, processes, and talent.

Consider the sample customer journey in Figure 2. It takes the customer through both digital and physical channels, involves actions initiated by the customer and bank staff, and demonstrates how the availability of customer data across channels can help a bank deepen relationships and drive revenue growth.

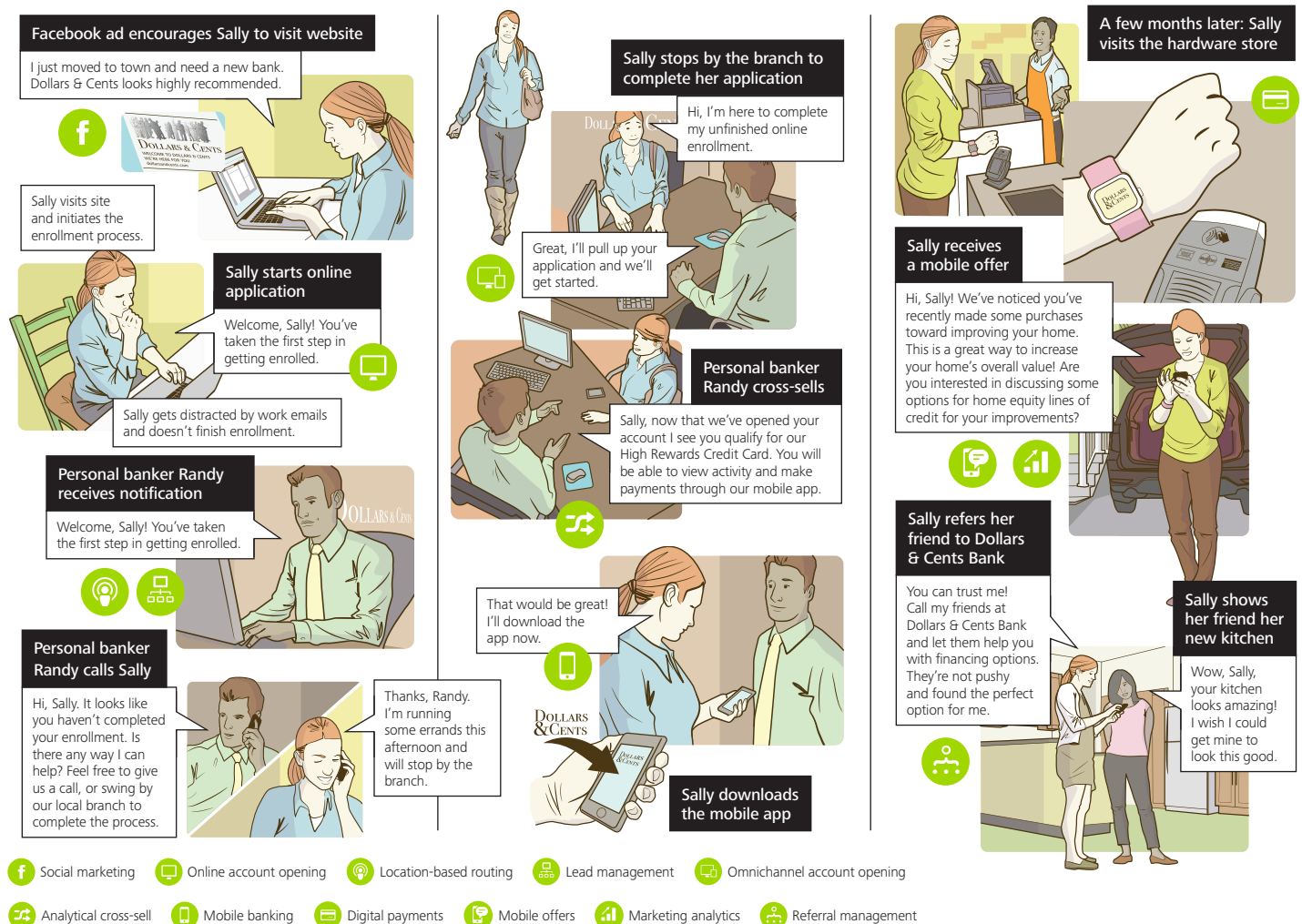
Translating this vision into consistent execution is not easy. Several deficiencies that currently hamper branch performance demand immediate attention as a preliminary step before the end-state can be achieved. If ignored,

these issues could potentially lead to higher customer attrition, missed revenue opportunities, and a jeopardized long-term strategy.

With this in mind, we present three immediate foundational priorities for banks and offer some near-term, practical solutions they can pursue to reinvigorate branch performance. Many banks still lack several of these important elements, even as they embark on bold and expensive branch transformation strategies. The incremental initiatives we present here can not only solidify current branch infrastructure, but can also boost returns on new investments.

In deciding their future path, heeding President Theodore Roosevelt’s evergreen advice can serve banks well. As he put it “Be practical as well as generous in your ideals. Keep your eyes on the stars, but remember to keep your feet on the ground.”

**Figure 2: Visualizing an omnichannel banking experience**



Source: Deloitte Consulting LLP

# Reimagining branch design

Openings of innovatively designed flagship stores and mini-branches have become regular media stories these days. They are positive signs of the industry recognizing changing customer priorities in the digital age. Yet most banks' branch strategies tend to remain rather one-dimensional, with the vast majority of branches designed with little attention to specific local needs and preferences.

While in theory a uniform approach may help provide a consistent customer experience, it fails to take into account the differences in customer needs and preferences—with potentially damaging results. Customers may be turned off by branches that do not suit their needs, and the resources devoted to cookie-cutter branch upgrades may fail to deliver appropriate return on investment.

In reality, there is no single ideal branch experience. Pooling data on local market demographics and the preferences of existing customers and using both internal and external sources provide a basis for making more educated decisions. Decisions related to branch location, design, services, and staffing, when made with the surrounding market in mind, can improve overall branch performance through new or different revenue opportunities. They may also reduce costs through a smaller branch footprint.

In Figure 3, we present four examples of branch models. In practice, model design, as part of the overall branch strategy, should be guided by the core value proposition that the bank is seeking to offer to its target market.

**Figure 3: Examples of branch models**



Source: Deloitte Consulting LLP

Certainly, there are limitations to altering branches, such as long-term leases and physical constraints. In such cases, even simple modifications can go far toward improving the customer experience. For instance, branches focused on advising businesses or affluent individuals may consider converting cubicles to comfortable private meeting rooms to create a more personal environment. At locations with high-transaction volumes, use of digital self-service tools can enhance customer experience while reducing transaction costs. These enhancements would give bankers more time to proactively engage with customers and make open spaces and “pods” conducive to conversations. Some banks have already begun experimenting with such spaces and technologies.

However, merely altering layouts and adding new digital tools is not enough. Operating these new branch models effectively—through staff training and appropriate product bundling—is just as important in attracting and retaining profitable customers.

Tailoring branch operating models for different markets has another obvious yet critical benefit. It can define the performance benchmarks for particular branch types and sales incentives. For instance, the fundamental performance metric for a “technology empowered” branch model should be transaction volume through self-service channels. In contrast, designing incentives around cross-selling and up-selling may be more suited to the employees of high-touch advisory models.

Redesigning branches and product portfolios based on the characteristics of target markets will no doubt require support across business lines and functions. However, the potential payoff in improved performance should make obtaining the necessary organizational backing relatively straightforward.

# Empowering branch staff

Last September, President Obama had an unusual experience at a New York City restaurant. His credit card was declined. The reason, it turns out, was that he hadn't used the card often enough and the bank's security algorithm suspected fraud. Fortunately, the First Lady was around to save the day.<sup>7</sup>

This incident might provoke a chuckle, but the average customer won't see the humor when treated this way. The point is that when technology fails, human interactions can aid in ensuring a positive and consistent customer experience. Nowhere is this more relevant than at bank branches; customers cite poor service as the single biggest reason they change banks.<sup>8</sup>

In an environment characterized by muted revenue growth, striking the right balance between costs and service quality has been difficult for banks.<sup>9</sup> Many firms have made significant investments in branch modernization through technology. Others have begun training tellers to become "universal bankers," who can help customers with both teller transactions and other service questions. Despite these efforts, most branch networks struggle to be both agile and proactive in fulfilling customer expectations of personalized, effective service.

Aside from the wider technology limitations within banks, the inability to maintain quality service levels at the branch level can stem from two issues. First, inadequate staff training for the products and services offered across business lines may result in branch personnel sometimes turning away walk-in clients, thus squandering a valuable interaction opportunity.

More specifically, insufficient training inhibits the delivery of high-value solutions. Think about a branch in a market that has a number of small law offices. If branch staff were sufficiently trained to understand the banking needs and cash flow patterns of such enterprises, they would then be able to provide pointed solutions at client locations and in the process gain the opportunity to build lasting relationships.

Second, even well-trained staff are often not incentivized or empowered to make meaningful service decisions. Branch staff training needs to include a broader range of products and solutions appropriate for the surrounding target market, as well as sales effectiveness to convert customer interactions at branches to more sales opportunities. This is especially important now that walk-in customers are more likely to visit branches for critical issues, an obvious consequence of the sharp drop in routine teller transactions.<sup>10</sup>

Consider account openings and new loan applications—both critical to revenue generation. More than four in five customers prefer visiting a branch for these interactions.<sup>11</sup> Streamlining these processes is not only important for immediate onboarding, but also allows time to educate customers about available options. Helping customers make the best choice for their needs, with transparent terms and conditions, can go a long way in fostering loyalty.

These changes need to complement a wider, more deliberate, human capital approach. In an increasingly customer-focused branch environment, the need for skilled universal bankers and branch managers will likely become more vital. They not only need to be technologically savvy but also excel at customer service. Of course, this staffing approach may entail higher compensation costs to attract and retrain such talent, but it is likely to pay off in the long-term.

Retraining staff to take on new roles is not enough—empowering them to provide tailored solutions to customer problems is equally pressing. Take, for example, a returned-deposit fee charged to a loyal and lucrative customer. The customer visits the branch to explain the situation and makes the case for a fee reversal. In this instance, the bank may be clearly justified in charging the fee, but doing so might jeopardize the relationship. In most cases though, even if the long-term payoff is obvious, branch front-line staff may be unable to help as they currently lack authority to make such decisions. Just as important, employees must be reassured that an occasional "incorrect" decision will not invite unfavorable performance outcomes.



Banks may also consider encouraging their branch salesforce to engage business and high-net-worth customers at client locations, when in-store foot traffic is low. Every opportunity for a face-to-face interaction counts in an age of fleeting customer loyalty.

Achieving one-touch resolution of every customer complaint is probably impossible for any bank today, but training and empowering branch staff enables banks to work toward that ideal. The solutions proposed above encompass several functions including marketing, human resources, and technology. They also support the view that some important levers of stronger branch performance lie within the wider organization.



# A new approach to customer engagement platforms

The drop in foot traffic at branches<sup>12</sup> is a fundamental digital-age hurdle for branch revenues. In itself, the change is not so bad—ATM and digital transactions are cheaper for banks to execute. The problem lies in the declining number of face-to-face customer interactions, which translate into fleeting customer relationships and reduced cross-sell opportunities.

Meaningful interactions that consistently deliver exceptional value are central to keeping branch banking relevant to digital-age customers. These moments matter, as they carry the promise to create and deepen relationships. The ability of customer-facing staff (both at branches and call centers) to quickly identify customer needs, diagnose potential problems, and recommend suitable solutions relies on understanding customer interactions and behaviors across channels. Put more simply, staff should have at their fingertips all information about a customer's inquiries, prior interactions, and product relationships—no matter the channel.

However, two obstacles stand in the way of this ideal. First, most banks still operate as siloed business units or functions—mini-organizations within a single institution. Second, and more importantly, antiquated data management infrastructures and ill-defined processes inhibit timely information sharing between different units and with frontline staff.

Of these problems, the first—a siloed organization—is much more difficult to solve, as it relates fundamentally to the way banks have grown and evolved as institutions over time. But the solution to the second—improvements in data infrastructure—should be executed through customer engagement platforms that place customer information at the center of banks' operations.

“Tech transformations” and “customer engagement solutions” have been industry buzzwords for many years now. However, stitching together a single, enterprise-wide view of the customer, and making it available to sales and service teams across channels and business lines, is still a hurdle for institutions both small and large, due to legacy infrastructure and decisions made years ago. This particularly remains the case for some key loan product portfolios, such as mortgages and credit cards.

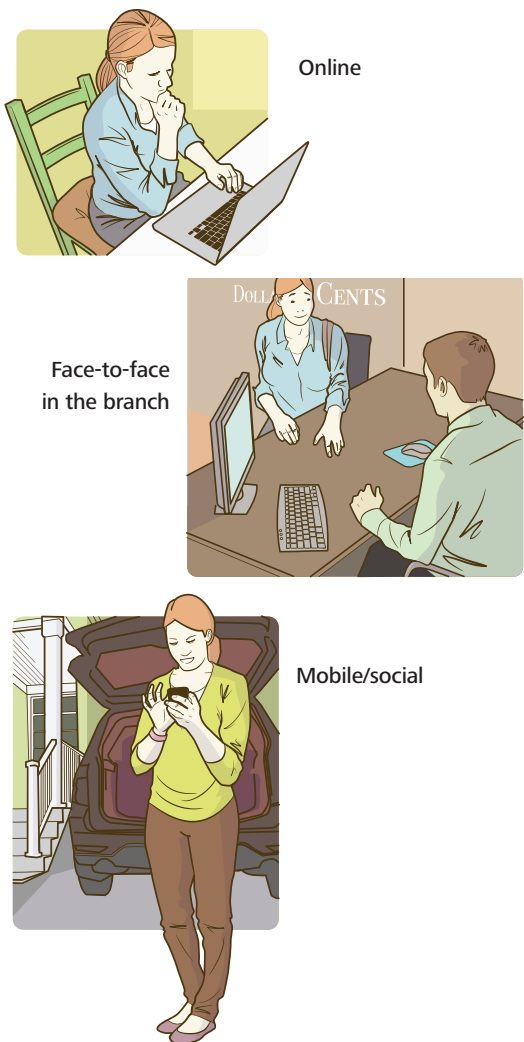
One frequent obstacle to such transformations is excessive focus on internal processes, which, in the past, typically drove system design requirements. Process flows that were developed to support the flow of data through internal departments, systems, and tools rarely paid specific attention to customer needs. Now, as a way to illustrate challenge areas, banks should instead consider building customer journeys (see Figure 4) that demonstrate the desired customer experience. An analysis of current capabilities against desired future states can shine light on issues where existing processes diverge substantially from those needed to facilitate the desired experience.

An important consideration in implementing these transformation initiatives is to encourage business lines to take ownership of the program, giving all stakeholders “skin in the game.” The resulting broad support generated within organizations will likely make transformation efforts more successful.

Enhancing their understanding of customers across channels and product lines has become a core objective for banks today, and for this, a single, enterprise-wide view of the customer remains the ideal. However, customer data is itself far from perfect at many institutions, and the time and cost necessary to achieve this enterprise view of the customer should not be considered a luxury. Banks often ignore this at their peril.



**Figure 4: Customer journeys**



Source: Deloitte Consulting LLP

Yet banks can still gain incremental insights by knitting together a view of the customer step-by-step, beginning with customer data sets that will improve customer experience as far as possible, without taking on the more onerous transformation challenges.

To the bank, this effort might mean either investing in new data applications or using tactical solutions that layer over legacy systems. But there is a fine balance to be struck in making this decision. In attempting to first meet the short-term objective of developing capabilities that support performance, it is important not to lose sight of the steps necessary to achieve the end-state, which ultimately drives long-term competitiveness.

The implementation of that foundational platform can give banks the flexibility to gradually deliver more sophisticated, technology-driven capabilities. Going beyond core sales and services, extended capabilities can be supported by data warehouses linked to digital marketing tools or analytical engines to make data come alive in support of business decisions, whether for cross-selling or credit underwriting. For branch staff, such tools can help focus discussions on areas a customer is more likely to find relevant, such as savings habits, retirement planning, or working capital needs.

Many institutions will find the scale of such transformation daunting. Yet implementing even the initial elements through select customer engagement solutions can establish crucial foundational capabilities. From a performance perspective, investments in such solutions can enable more holistic product delivery by helping staff better understand customer needs and priorities and empower more informed cross-selling. These improvements are fast becoming table stakes for a competitive and vibrant branch network, and can drive long-term competitiveness by providing banks a foothold towards evolving more sophisticated customer engagement tools.

# Making branch transformation a reality

For many banks contemplating how best to provide seamless customer experiences across channels and platforms has been a challenge. Our paper aims to provide a point of view that recommends some near-term solutions that can help banks get greater value from their branch networks and achieve their long-term objectives.

Tailoring branches to local needs, empowering frontline staff, and implementing new customer engagement platforms are all principally aimed at consistently delivering superior customer experience at branches. Higher-quality customer experiences are highly correlated to incremental purchases and positive “word-of-mouth” recommendations by customers.<sup>13</sup> They are also linked with a lower likelihood of customer defection.<sup>14</sup> The evidence is clear—by fostering loyalty, better customer experience can deliver substantial additional revenue.<sup>15</sup>

All in all, the business case for branch transformation strategies highlighted in this paper is quite compelling. While the solutions presented to help reinvigorate branch performance may seem simple, putting them into practice can often be tricky, requiring strong commitment by leadership and collaboration across the institution.

## Endnotes

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