

LIFE OUTSIDE THE BRANCHES

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Abstract

„Ad poenitendum properat qui cito iudicat” as the latin common saying expresses, defending the observer from bringing a quick judgement. Some years ago several publications about the jumping ahead of the Internet appeared, which predicted the end of the traditional bank services. These analyses forecasted the complete ignorance of the traditional customer relationships due to the spreading all over of the new way of sale, the direct sale. Although the reality experienced in the last years does not prove this early statement. Nevertheless the branch-based customer relationship seems to be reorganized by the end of the '90s.¹ At the same time despite all the exaggerating predictions it is obvious that the role of the branch is not decreases, but rather changing. In order to understand the motives of this expectation, it is worth to take a look back to the development history of channels used for supporting sales activity.

1. Expanding channel space

During thousands of years it was a completely personal case to handle money. The old hegemony of sales based on the personal contact has been broken only in the second part of the last decade. By the late 1990's, bankers believed that the new and emerging channels would provide a lower cost route to the delivery mix of future, and wholesale branch closures would follow [Carvell, 2002]. Though this not happened, the early concept was really changed by the technological and communicational development in the past few years. In case of financial institutes the personal service remains an obvious need, still the convenient and fast distance-services are to become real market demands. The unpersonal, direct sales methods gain more and more space in our daily life. By today with the more and more dynamic use of out-of-branch² sales methods we can not talk any more about the branches and complementary alternative sale channels. Based on the new way of thinking all the channels are alternatives of each other.

The development of the technology and the everyday usage of it due to the establishment and spreading of the telephone services and bankcards turned the attention towards new bank service types. After the appearance of these solutions (which today are already basic services), still decades lasted until the development of technology made the usage of computer science to be really user-friendly. Our days are determined by such an abundance of the media that was never so characteristic in the history of the humanity. As a Datamonitor³ report says: „Integrating disparate banking channels will be a priority for European retail banks in 2003.” Of course, this development greatly influences the operation of the financial institutes, since availability and service of customers are completed today not only through the branch network. This extraordinarily accelerated development has some drawbacks as well, besides the development of new opportunities for sales. The several newer and newer technological solutions appearing one after the other are often unable to create their own user-group, just because they are changing fast, or in a short period of time they are going through a significant newer modifications. This continuous change can be experienced for years in the life of the internet. A similar accelerated procedure takes place on the field of mobile communication. After the

¹ During the '90s the branch network in England decreased with 25% due to the recession and bank consolidations.

² see “direct” channels

³ Datamonitor is one of the independent market analyst in Europe

spreading of analog mobile technology in the early '90s, the GSM, and later the GPRS technology conquered the world during a couple of years. Today the 3G and competitor IMODE technology can be called modern.

2. Managing or loosing the customer?

The dramatic increase in the number of channel systems brought the period of awakening for every organization. The operation of systems conquering with each other is not only a technical and organizational challenge for the banks, but it is a serious question when treating and training the customers. The average user can probably feel lost in this steadily transforming media-jungle without the establishment of new behavior types. The customers earlier used to one specific service can nowadays easily face the fact that their bank offers them such service channels⁴ that the using of which is not even trivial. However the recognition of the lack of user knowledge can cause specifically two kinds of reactions: on the one hand the user can pursue an „ostrich-policy” when the user can lock the offered possibilities out of his/her mind (in a worse situation he/she just leaves the organization), or in a fortunate situation just launches a self-training process during which the customer can get to know and use the new system.

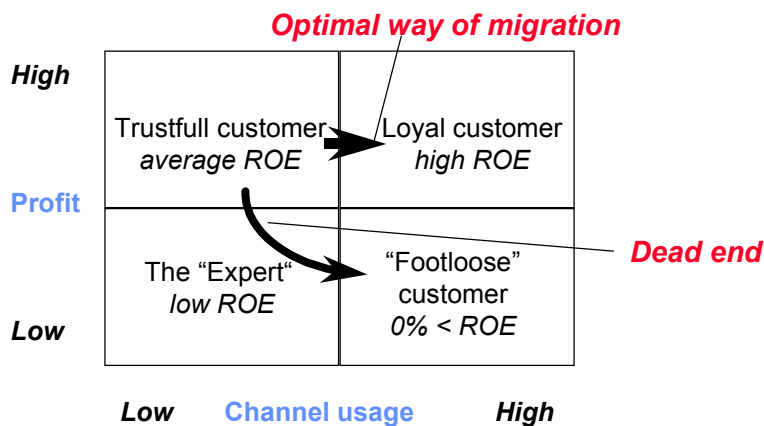


Figure 1.: Migration of customers in the multi-channel sales

Source: own

Besides, it can not be denied, that the openness towards new things generally diminishes with the increase in the age. Unfortunately moves the so-called customer value quite in the contrary direction: ie. on average are the *high value* middle-aged much less tend to be interested in the inventories of the modern technology, than the younger generations which represent the *future value* for the bank. This means also, that while the younger generations can find their way automatically in these technologies, in order to not loose the middle-aged customers a kind of directing and teaching customers becomes unavoidable. At the same time it can be claimed that if the organization managed to go through this obstacle there must be an increase in the loyalty of customers.

3. Out of the branches

Turning back to the old predictions perhaps this is the point which shows why the spreading of the direct banking services stayed much under the predictions. Of course it can be accepted as a fact that the market of the direct (bank)services exists and will remain forever. At the same time the power of human comfort and habits is enormous –

⁴ and even makes them to be more advantageous in the aspect of pricing

these services can not take up the fight with it. Furthermore the strong technological dependence confront the bank services based only on the internet with such problems that do not arise in traditional organizations.⁵

A steadily widening spread of the branchless customer relationship methods, sometimes almost unknown, changes the behavior of the customers, too. The usage of bank *products* shows nowadays specially the characteristics of the making use of *services*. Slowly the 7/24 availability of the bank services becomes completely natural – still rather the organizations which do not meet these requirements seem to be strange. Probably the situation was created by the self-generating of the competition on the market, that in our days the need of availability in the financial sector is far over the average availability expected from the retail sector. In case of banks or insurance companies the 24 hours' operation is held to be natural, but for almost every other sector is the similar availability referring to the trade union movements and the EU conform regulations prohibited. Obviously this comparison does not cover the total truth, because in many cases the basic financial services can be provided for the customers without any human interactions.⁶ Perhaps this fact is exactly what leads us to the conclusion that the establishment of the multi-channel sales in the financial institutes can not easily be compared with any other sales transformations on the subject of their effects. Because this contains the accomplishment of communication and the radical widening of the offered services. Today the customers can have an access to the descriptions of the products and study the details of the different services out of branch network, too. By the effect of the more and more developed technology through the out-of-branch channels the sales of most simple products can take place in details or as a whole. It can be proved that in connection with the complex products, placing the sales of value added services out of the branch are getting on much slower.

3.1. In and out of branch sales methods

With the introduction of the alternative sales methods financial institutes hope the changing of customer habits and the way of service. An expected positive effect of this can result in the reduction of product item costs. Earlier only the branch network provided the possibility of making transactions and obtaining information connected to sales for the customers. Today the appearance of the Internet and all other media created a new possibility for the customers to study the products and services still before visiting the branch. So it is possible to support the „self-training” of the customers. Of course the winner of this procedure can be the financial institute and the customer as well. If the sales process would be well prepared for the treatment of the new type of customers and even wide range of customers would be moved towards this preparation phase, then the activity of the branches would be significantly effective than before. With the division of labour between the branches and the out-of-branch information and transaction channels the role of the branch will be restricted to the phase of sales out of the trio of informing–sales–after care; so the pre- and post-phase of sales will be given back to the customers' activities. This way besides the sales cost reduction deprived from the dividing of jobs, the customer centric personal service will be strengthened. At the same time the customer need for comfort will be satisfied, too, since the other phases of customer relationship will belong to the direct sales/channel systems. The task is, of course, not so simple – but if the organization will pass the exams well, then it could develop a very effective product sales and loyalty improving services.

One basic pillar of direct sales is the more and more widely spreading of products and service information. These methods are among others the Internet home page, the applying of Call Centers, and the spreading of services based on the GSM telephones. Since almost every financial institute has a combination of these sales channels, the customers can more and more easily obtain the information, which is important for them, by comparing services. Nowadays we can experience a kind of globalization of the information and the service in case of financial institutes, too. But still it is worth when talking about this issue to divide the unbelievably accelerated worldwide spreading of the information, and the real *mobility* of the users. The experiences of Internet show that the already for long years established global information access capability is only to a little extent followed by the usage of services from different places. For the most of the users the globalization will not be equal to mobility. The phrase of mobility becomes conspicuous again rather with the development of the GSM based services.

⁵ This is for example the fast and mass transaction volume required by significant stock exchange movements, which causes the blocking of information technology systems (DOS).

⁶ see Internetbank services, GSM based banking services, ATM services

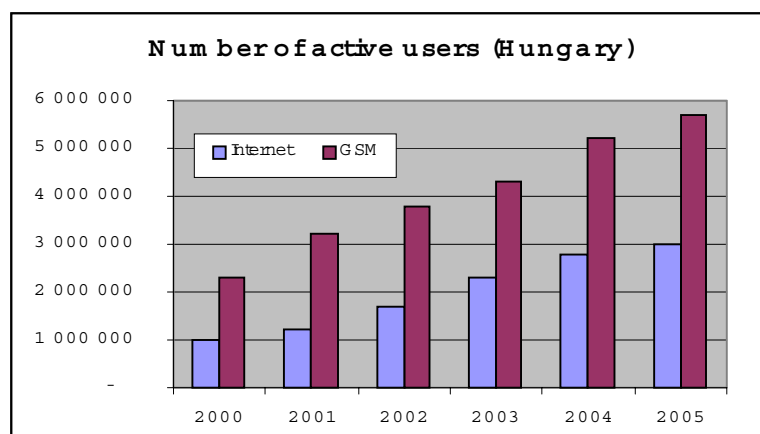


Figure 2.: The GSM and internet penetration in Hungary

Source: Gfk, 2002

3.2. Over the border services and types of retail sales

An interesting group of effects that the Internet has on the customer relationships in direct sales is the circle of the changes connected to the service methods. The financial institutes earlier specialized in domestic/national sales, became suddenly potential international service providers by the effect of the Internet. At the end of the '90s a series of e-finance institutes appeared established especially for crossborder activity: the Advance Bank, the ConSors, the Egg, but among the traditional players the Credit Suisse, ING and the ABN-AMRO. Similarly to the European process players of other continents strive for global service: the Chase Manhattan, the Royal Bank of Canada, and the Bank of Scotland wants to expand from the overseas markets towards Europe. The financial institutes mentioned offer online broker service under the term of online banking, besides the banking activities provided for the customers. So the supply of crossborder services can be expected to have an effect on the investment market. At the same time it must be seen clearly that the establishment of these enterprises requires serious investment.⁷ Similarly due to this functional reorganization that in the past few years such enterprises appeared in the surroundings of financial service providers, which as a service provider (ASP⁸) offer their sales network for financial institutes on payment of commission in order to expand or to make more effective the method and physical availability of customer service.⁹

The establishment of purely direct banking services is a reasonable process from an economic point of view. And still their spreading is not unambiguous – especially not from international aspect. The cause of this is mostly to be found in the different legal regulations in the national economies. The regulation of the financial activities is based in every country typically on the service connected to the branch network. In present times the legal treatment of the special sales methods can be deprived only from this norm system. Since it is typically characteristic, that the effective provisions deal not or just superficially with the new kinds of sales methods applicable by the financial institutes also, the operation of direct banks is by many of the representatives of the bank sector found to be a legally not completely established activity. At the same time this slow evolution of the regulation is natural, since the law can not easily follow the fast changes in the technology. Because of the different levels of the technology and the social conditions the regulations of the countries can show a significant difference. These differences can become especially tight in case of the activities expanded over the borders, for which no international regulation exists in practice. Such a

⁷ The First-e (the first „internet only” bank in Europe) began its operation with an investment of 60 million USD in two years.

⁸ Application Service Provider

⁹ For example the Euronet ATM networks present in Hungary is a kind of ASP service.

problem can arise in case of money or transaction orders made from abroad, but even in connection with the distance account opening function.

3.3. From product focus into customer focus

With the management of customer relationships significant advantages appear which effect the whole sales process. The product centered business strategy will be replaced with the customer centered business strategy, which becomes a primary importance for the financial institute. The cause of it is simple: a significant part of the financial services is easy to copy. Accordingly if an organization in the long run race for customers wants to take up the fight successfully, then it has to compete not only on the field of products but customer service, too. On this particular field it is possible to go forward only if the organization applies techniques managing customer relationships considering unique customer needs. But the consciousness of the transformation is incomplete many times. There are more and more new sales systems introduced under market pressure, which bring the financial institute into difficult situation. In many cases instead of the real economic efficiency, the fear of loosing the customer dominates when putting these developments into action. However the 'state of art' type developments of sales systems can be very dangerous to the business. Since the time of return on the introduced modern technologies is often rather slower, than the moral amortization of the systems – the not considered introduction of the new developments can cause the establishment of a „spiral” of expenses in the organization. For this reason by now running a continuous widening of sales channels without an appropriate central management is unimaginable. Banks need a holistic interface that will enable customer to access these different channels [Jopling, 2003]. From the aspect of the organization it is at least such important to know the following things through the individual evaluation of customers: who are our most profitable customers, who are those customers considering to leave our organization, pointing out the opportunity of cross-selling and those customer requirements not covered by our product development. With the conscious use of all these information the customer-lifecycle (which is critical from the sales results' aspect) can be improved. This way the well-planned sales support as a whole can raise the customer service to a new level, where new dimensions of cross selling can be opened.

4. Transformation of branch networks

The greatest change in bank's approach and strategy in multi-channel banking is the fact that the branch is coming back into focus [Skouenborg, 2003]. The reorganization¹⁰ of customer relationship tasks requires an operation of the branch network on more efficient way than the former one and completing other, different tasks, too. Since the most expensive way of customer relationship is the branch network this challenge faces the organizations providing universal bank service with serious decisions. In nearly every organization the first step of adequacy to the establishing, much more strict economical requirements is the centralization of accounting (so-called Back Office) function. Due to this reorganization the branch network is released from a significant part of administrative duties. The so gained working capacity, the employee, the place and the time can be all turned to more effective customer services. This process is, of course, not so simple because the reorganization of workflows can have an extraordinary effect on the operation of the bank and the operational risks, too. That is why the question 'How to go further?' becomes a problem of the branch network development concept. The solution can be sought in the optimization of the size and complexity of the branches, but also in the reassessment of the localization and operation circumstances of the branches.

4.1. In-store branches

At the beginning of the '90s the number of bank branches in some countries was significantly above the international average. Maintenance of the economic efficiency of sales inside the branch network required new solutions in these countries. Mainly in England and the US in supermarkets and shopping malls so-called *in-store* branches were created. According to the opinions this model provided a real alternative of the expenses branches opened in high street zones.

¹⁰ making transactions outside the branch, value added services in the branches

Table 1.: Level of branch networks in different countries in the '90s

| COUNTRY | NUMBER OF BRANCHES (000) | POPULATION PER BRANCH (000) |
|----------------|---------------------------------|------------------------------------|
| Belgium | 7 | 1,5 |
| Germany | 55,5 | 1,5 |
| France | 25,1 | 2,4 |
| Italy | 27,2 | 2,1 |
| Sweden | 3,9 | 2,3 |
| UK | 15,4 | 3,9 |
| USA | 78 | 3,5 |
| Total | 219 | 2,6 |

Source: Financial World 2002

The realization of this kind of partly automated branch conception was widely supported by the technology already at that time: the ATM systems were applied and the first so-called *multi-media kiosk* solution appeared, too. These applications complementing the relative poor services of the cash automates enabled an access to a really wide segment of self-servicing products and services. Many of experts evaluated this solution as the bank of the future. Furthermore not only in the banking sector but organizations belonging to other service industries were just thinking that with the opening of these kinds of minibanks and selling bank products they could expand their services provided for the customers.

These units targeted mainly the 'making banks cheaper for customers' concept. However the quickly developing telephone and Internet based services showed very soon, that the effective handling of transactions is for so long not a task of the branch network. So this led to an early, and unrighteous fall of the model. The future role of the supermarket, in-store branch depends on its position in the distribution concept. This means, that banking shops must achieve the most efficient strategic position within the distribution channels. Previous experience has shown that in-store branch should be seen as an access point for price-conscious customers who require simple, standard products. However, this puts them in a category closer to the distribution channels based on new communication technology [Burkhard].

4.2. Zone-concept

The strengthening of sales support-role of the branch resulted the revaluation of the former branch image and the applied servicing positions. From the '60s on a series of theories and practical applications arised which introduced new branch constructions: the banking services were connected with (Internet) cafés, or even there were a concept of drive-in banking services as well. The purpose of all these attempts is to make the service more efficient and cutting down the investment and operation costs. The banking sector learned much from the experiences of the early experiments. One of these experiences refers to the standardization of branches in order to be more cost effective. It soon became evident that the size and outlook of the branches can not be standardized completely. A much more important thing for the organization is to be able to keep the unified outlook and adjust it to the business opportunities offered by the local circumstances. This required instead of a total standardization rather the introduction of a modular branch development. A further developed version of this idea is the nowadays fashionable so-called zone-concept. By composing the zones the aim was the application of traditional retail sales experiences in the banking services. Similarly, like in a supermarket common placements for services of different characteristics were created, between those with the application of a kind of customer directing method the customer can be turned

(to particular things). So the customers can get familiar with the particular zones of the branch and select the required service according to the bank's intention.¹¹

The early part of the past decade saw the ING Group revamp the branch concept. Working with an external design house, it applied significant energy to the development of self-service driven „lobby” banking. It shared the growing recognition of the coming to value extended hours of operation and set out to design attractive front areas that could be available 365 days a year, 16 hours a day. Presented as a café in mid-town Manhattan, the outlet not only offers a free internet facility – with access to ING information and products – but also sells coffee, pastries and branded merchandising. Its atmosphere and modern retail format are informal and deliberately funky.

With the help of the zone-concept the branches can differentiate effectively between the fast and the slow sales processes, and can naturalize completely self-service functions in the branches. Moreover, with the converting of some parts of the branch equipped with self-service tools into a 24 hours service, the simple transactions of the customers can be directed out from the human support and at the same time the outstanding role of the branch can be kept. In some cases these automated branch-zones came to an individual life. Especially characteristic for the English and German language speaking areas are the widespread use of 7/24 hours mini-branches¹² equipped only with self-service machines¹³.

4.3. Franchise networks

One of the most difficult points of the branch investments is the organizing of ownership or lease rights of the property used. This is not only a question of return on investment, but the ownership of the branch can prove to be a steady investment in case of a possible closing of the branch. In some countries¹⁴ in order to avoid this problem there is a method applied for taking over these costs-item: that of banking services operating in the franchise. On the subject of successful operation the handling of property in a different way promised to gain a fast profit. At the same time these constructions reduced the effect of the bank on the real, everyday operation. Besides the very significant increase in the operational risk a series of questions connected to economic efficiency arose:

- For how long is it worth to sign the cooperation contract?
- What kinds of guarantees are there for the bank, that the sales point is not going to change soon into an agent of an other bank?
- What should happen to the equipment after termination of contract before the contractual time is over?
- Is the bank responsible for the renovation and reconstruction of the branches?
- Is the bank obliged to pay the cost of all reconstruction works connected to the changes in the operation conditions (e.g. obligations caused by the change in the regulations)?
- Whether the reserves from investment costs will become a recovery investment in the long run?

No answers are developed for the questions yet. Similarly to the formerly mentioned solutions this can prove to be able to live, only an appropriate organizational background is needed for introduction. But this is a critical factor in order to reach success.

¹¹ Typically differentiated are the fast and the consulting zones, and the browsing, the studying and the 24 hours service zones

¹² Usually during the day there is a minimal number of service/support personnel in these branches, in order to improve the ‘bank feeling’ of customers

¹³ ATM, statement printer, self-service terminal, night trezor, Call Center access, internet terminal, POS material, etc.

¹⁴ e.g. Belgium, England

5. Summary

The spreading of direct/out-of-branch sales technologies obviously has an effect on the development of branch sales. But why is then that the branch network still has the superiority over it? The answer is very simple: just because it works. Until now none of the alternatives of the branch-network could provide such a complexity nor intelligence for the customer service, that are easily accomplishable in the branches. Perhaps once with the development of the artificial intelligence it will also happen. But until that time the role of the branch is arguably to protect, develop, and increase the number of valuable relationships within its portfolio [Carvell, 2002]. After all the increase in the costs and the efforts for efficient operation force changes in the banks and for the colleagues in the branch network. It is true already today, that branches and direct sales operate cooperating and not against each other. Creating an optimal channel-mix besides improving effectiveness of the organization can become a pledge of the harmony in customer relationship.

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