



**ACTIVE
VALUE
ADVISORS.**

The Branches of the future, the future of Branches



Table of contents

INTRODUCTION

THE BRANCHES OF THE FUTURE, THE FUTURE OF BRANCHES

- i. It is a common practice to offer multichannel banking services
- ii. Do note that the first mover towards the multichannel world has been pure online banking
- iii. ...What about traditional banks?
- iv. First main issue - Which role will traditional branches play in multichannel strategy?
- v. Who needs traditional branches?
- vi. The physical branch is playing a different role, and this should lead to a different layout...
- vii. Second main issue - Determine the positioning of pure online banking within the group
- viii. There is no supervision in making the transition from the “old” idea of the bank to the “new” idea



Introduction

What is your opinion on present prospects for the retail banking?

*How do you figure out the future shape of banking?**

In the past twenty years the banking system has changed fundamentally paving the way to two main challenges for the retail banking industry.

The first challenge relates to the optimum role, number and layout of traditional branches in the near future. Technology and new regulations have allowed increasing simplification of the procedures and customer relationship.

The second and most specific challenge affects only some groups for it deals with pure online banking - a key note of the impact of internet on banking processes and services - and its positioning within those multi bank groups that are developing multichannel and integration strategies aiming at promoting virtual banking in addition to the traditional, physical banks.

Although there are different approaches to handle these tasks, ideal model determination and, most of all, perfect timing (the latter depending on customer changing behavior/needs

and competitive trends) are the real challenges. Banking companies should therefore develop a specific approach to multichannel management control in order to develop their model according to timing.

Do banks have Multichannel Management Control?

We don't think so. Approach should focus on management and implementation of the multichannel strategies adopted by banks and allow a synthesis of the various activities, feedbacks and controls that have been carried out. Unfortunately these activities show at present disjointedness and irregularity.

For example, how and how much do people responsible for territorial Planning communicate with those responsible for customer churn rate management/reduction or with those responsible for pricing and new product development given the fact that price influences attitudes and drives customer choice of the channel?

Do above mentioned decisions comply with a common strategy?

*"Banking is essential, Banks are not", Bill Gates, 2008

It is a common practice to offer multichannel banking services

Nowadays people can make transactions and ask for advice with their mobile phones when it suits them, no matter where they are.

Phone banking has been since the 1980s the first no time consuming and no queue bank service offered to clients to meet their requirements and expectations from bank services.

The bursting of the internet in the '90s deeply affected processes, products and services in the banking industry (Pic. 1).

Internet allowed banks to reach their clients at home, in the office and, in recent times, wherever they might be.

Customers are moving away from phone banking showing increased interest in home banking that is becoming an important commercial channel

Moreover the reason for the success of these new channels is that more and more customers access banking products and services through multiple channels.

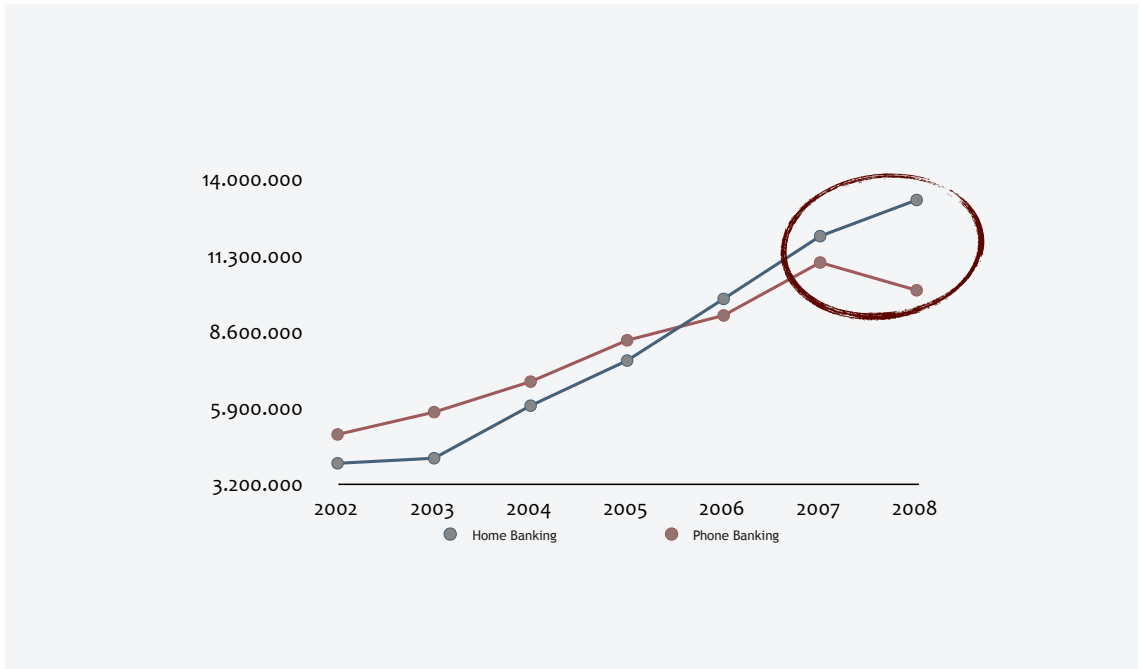
Do note that the first mover towards the multichannel world has been pure online banking

Under the trend towards a new shape of banking and fueled by the bursting of internet is the development

of online banking that featured virtual platform and an innovative, self-managing and distinctive services compared to traditional bank offer.

Banks within groups could provide a quick answer though the technological discontinuities featured by internet.

Pic. 1 - Home Banking & Phone Banking in Italy. Banca d'Italia June, 2009.



These operators have tried to gain retail market shares providing a distinctive offer featuring the latest technology, reduced internal costs and a broader range of services in order to position themselves in market segments uncovered by traditional banks.

Online trading, therefore, represents a successful segment of services.

For example, web-based securities dealing has been and still is one of the most appreciated services that deeply changed the role of “street market” of traditional branches. Slow performance of Stock Market and squeezed intermediation margins caused pure pure online banking to renew even main traditional products/services to attract and retain clients.

Compared to traditional banks, virtual banking has a different structure but it matches physical banks as far as their functions and provides a service surplus and immediate 24/7 high-speed access to final customer (Pic. 2).

Early 21st century saw the explosion in Europe of a new kind of bank offer: the online banking

In Italy and worldwide the strategy adopted by the main Bank players aims at discouraging the customer from the use of counters for daily operations

...What about traditional banks?

Although many traditional banks have integrated self-managed virtual banking delivery infrastructure, most

of them have opened to the world of multichannel offering their portfolio clients access to e-banking as complements to the “physical” bank, thus combining benefits of personal relationship with high-speed access to services.

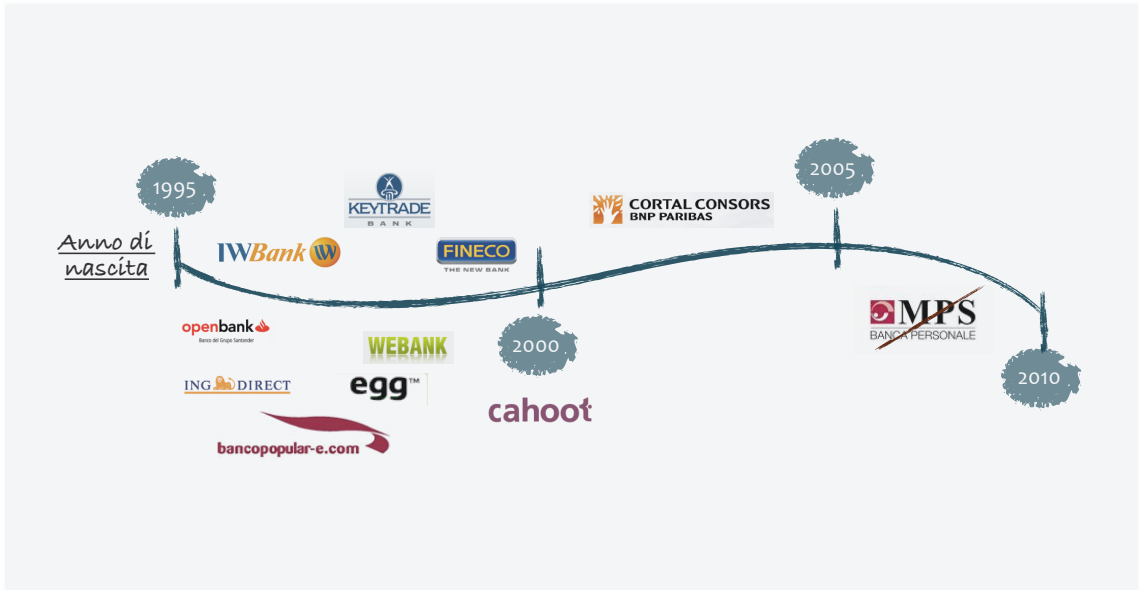
More than 14,5 million current accounts (i.e. about the half, showing an increase by 8,6% in 2008 compared to

previous year) feature access to at least one single channel (Internet, Phone e Mobile banking) providing an option to traditional counters .

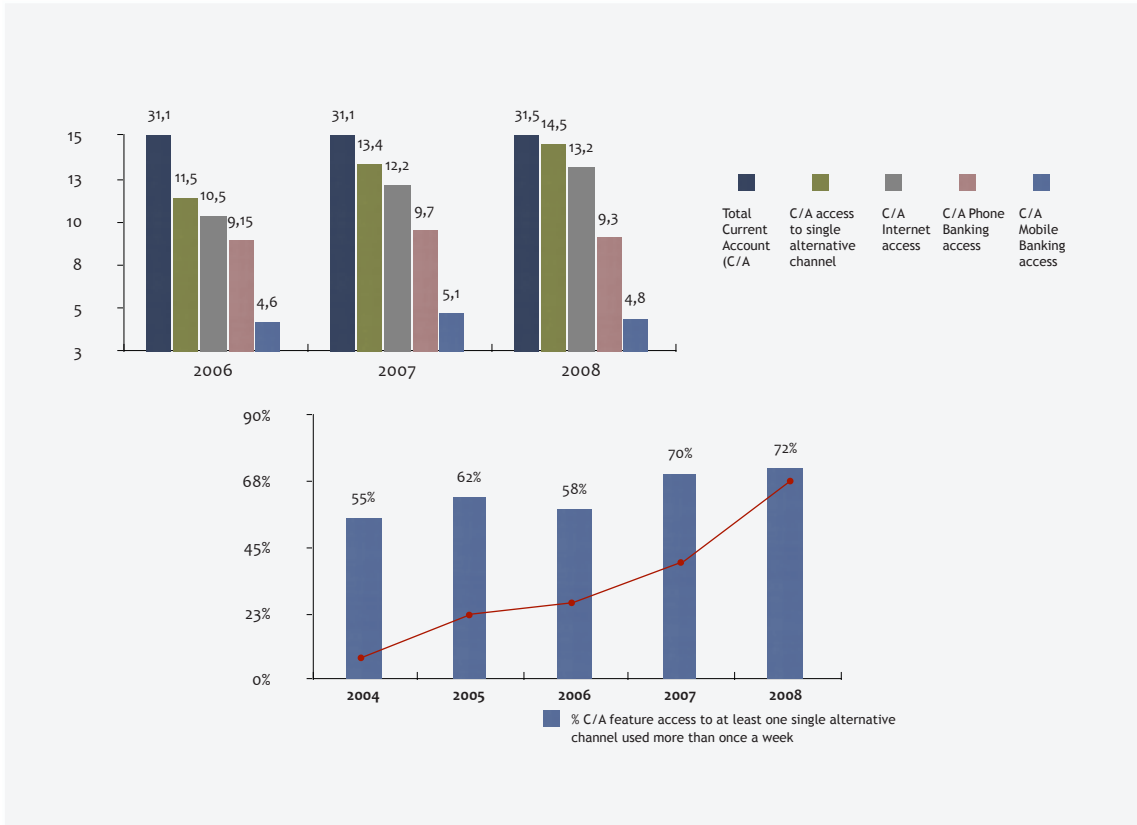
More than 72% are active accounts used more than once a

week (Pic. 3).

Pic. 2 - First Mover towards the multichannel world. Source: Active Value Advisors, 2010.



Pic. 3 - Open to the world of Multichannel. ABI, IV/V/VI Report “La multicanalità nelle banche”.



First main issue - Which role will traditional branches play in multichannel strategy?

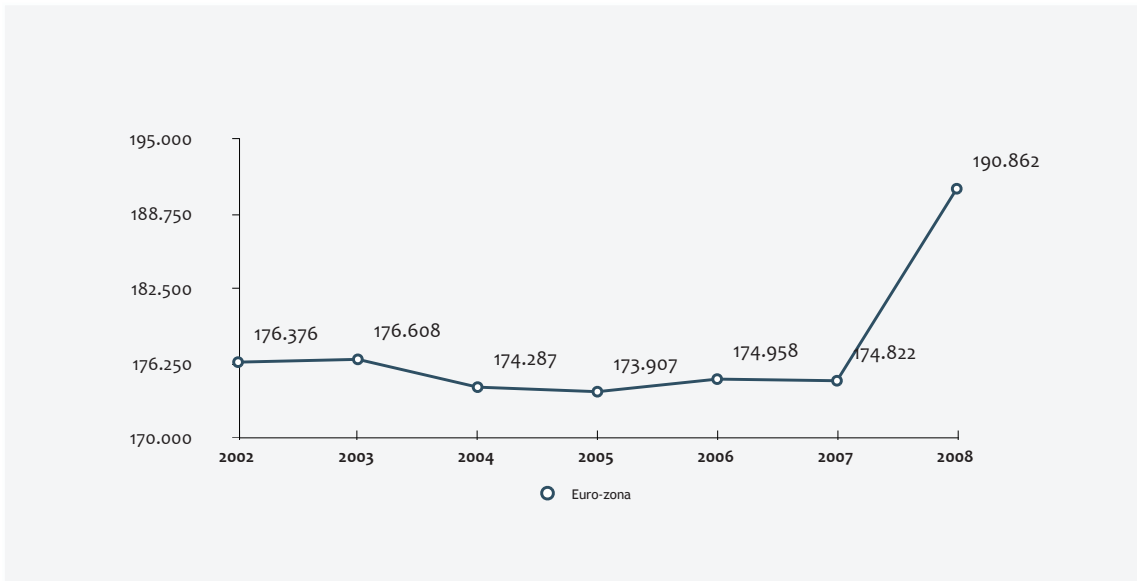
The number of banks offering the ability to perform banking tasks over the internet providing multichannel integration has increased. Yet at the same time, face-to-face contact with clients still remains the most effective way of building a profitable and long-lasting relationship between bank and client (Pic. 4). Although the future role of bank

There's an increasing interest in alternative channels. Yet, at the same time, branches still play a fundamental role and their number is increasing

branches will no doubt be affected by new channels development, pricing remains the main tool to influence consumers purchase. Online bank users save an average of 9,5€ compared to multichannel users (-16%) and up to 31€ compared to bank branch users (-34%), thus it seems clear that banks are driving customers towards the use of alternative virtual channels and internet to optimize “production capability” of branches.

Most banks have developed pricing strategies to reduce the cost they charge to their customers for online products compared to offline. Contrary to global trend, just few countries have decided to increase charges for online products (Pic. 5).

Pic. 4 - Number of Branches and Counters. European Central Bank, Statistical data, 2009



Russia for example, maintains high fees on online services.

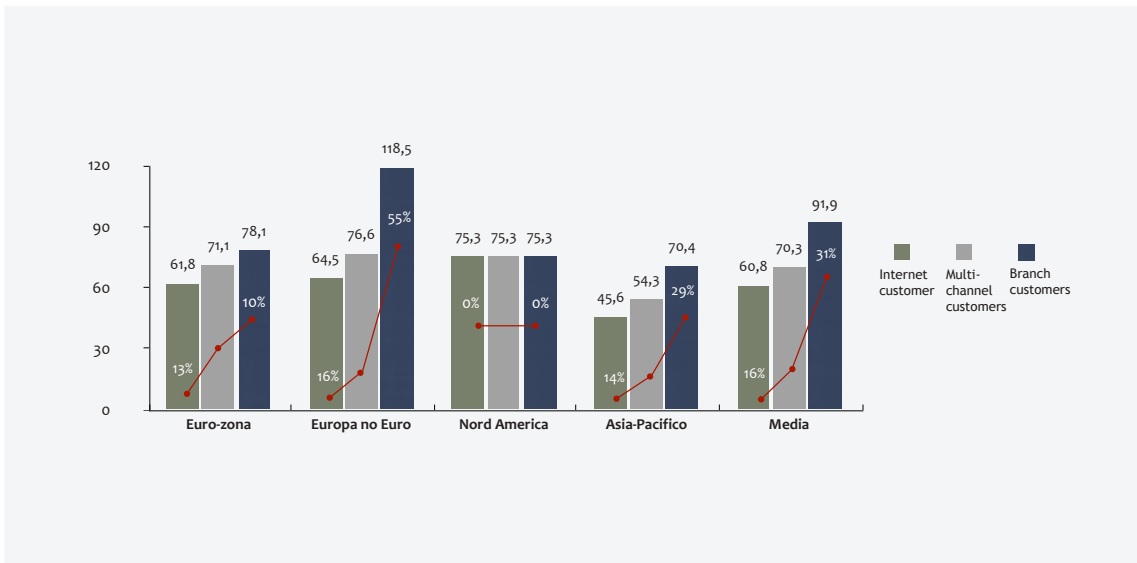
Multichannel offer allows banks to charge to customers at different costs, providing multiple offer packages.

Given the trend to a pricing strategy promoting new

New channels can lower transaction costs for banks and provide immediate 24/7 high-speed access to final customer. Most banks align their pricing policy with their cost policy instead of focusing on the value perceived by customer

channels, what is the future as far as physical bank branches presence (number and role) for the foreseeable future?

Pic. 5 - Price comparison - online Bank users. Source AVA analysis on World Retail Banking Report, 2009, Euro



Who needs traditional branches?

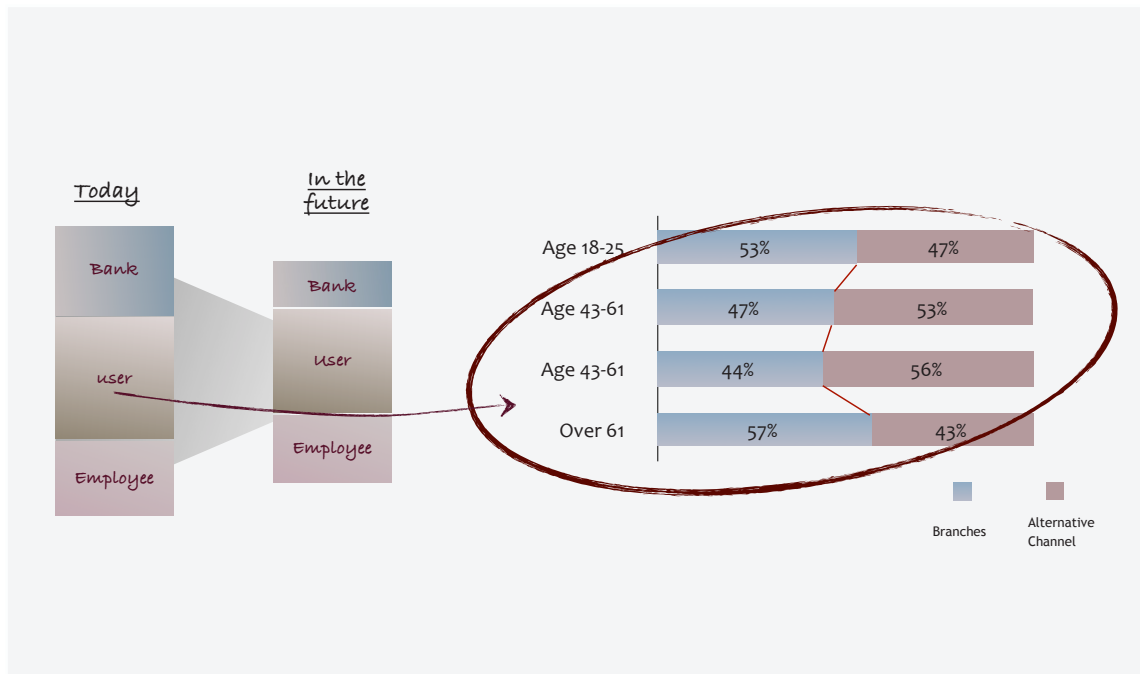
- First of all the branch network. 30% of customer visits per year to the branch are made primarily to sign contracts and documents or to comply with procedures. All these activities are fundamental to the bank to work properly. In a near future technical innovation and new regulations (scan signature, web-based document management, certified mail, etc.) will keynote branch infrastructures paving the way to automatic procedures and provide distance management by means of service centres for back office activity management.
- Customers need physical banks. The idea that customers will not visit their physical/local branch anymore is wrong. Despite the growing interest

Many customers prefer their physical branch and consider it the best place where they can meet consultants and bank staff

in alternative channels of customers between the age of 18 and 25, more than the half of them generally prefers the personal nature of branch banking. In Italy for instance, 6 million (21%) customers prefer face to face relationship with their bank representatives having more than 34 thousand counters at disposal.

- Bank employees need a comfortable and pleasant place where they can interact with their customers and boost their business/relationship performances. However the employee's idea of physical layout of his workspace might be different from customer's needs (for example, ground floor branches versus high floors, alternatively open space providing easier interaction with customers versus social room for bank personnel only) (Pic. 6).

Pic. 6 - The need for traditional Branches. AVA analysis on Deloitte Center for banking solutions/Harris Interactive Survey



The physical branch is playing a different role, and this should lead to a different layout...

In the near future, customers and employees will need traditional physical branches less than today. Surveys suggest that retail customer will need to visit his local branch 8 times in a lifetime.

Will therefore the bank (dismantled and featuring new layout, alternatively offering advisory services by appointment) visit its customer or will the customer visit the bank?

Different strategies redesigning the concept of physical branch as a comfortable place featuring different areas where customer receives help, information, advice and can talk to bank representatives and financial institutions without fear have been created (Pic. 7).

Many initiatives are driving the

Many bank groups have moved towards the world of integration between physical and virtual channel.

What will the future shape of banking be? Will the customer visit the bank or will the bank visit its customer?

change to integration between virtual and physical channels simplifying operations by implementing the latest technology and renewing the branch to provide increased added/perceived value services.

How can we determine the right timing?

Second main issue – Determine the positioning of pure online banking within the group

In order to manage pure online banking integration it is important to understand its positioning and distribution role within bank groups.

Compared to traditional banks within the group, what will the salient feature of virtual banking be?

Pic. 7 - Create new Branch concept. Source AVA, 2010.



WILL THE CUSTOMER VISIT THE BANK...?



- Sliding doors to remove "barriers at the entrance"
- Layout reflects bank values
- Informal as well as painstaking location to increase customer experience
- Newspapers, cafeteria, brochure while waiting

...OR WILL THE BANK VISIT ITS CUSTOMER?



- Branches located in strategic points (café, store, kiosk, etc.)
- Innovative layout
- Partner brands (Tchibo, bakery, etc.)
- Active and comfortable waiting rooms





It all used to be simple, IT innovation and web-based service typically provided a distinctive tool . Things have, however, changed.

Increased Internet access does not distinguish banks anymore, therefore it necessary to focus on target multiple offer systems (for example asset gathering) as well as pricing strategies in order to cluster/drive particular kind of clients towards pure online banking, alternatively towards retail multichannel offer provided by other banks within the group, helping this way positioning of the bank on target customer segment (Pic. 8).

It is necessary to determine a comprehensive multichannel strategy to develop plans and activities aiming at online bank positioning within the group and target client segments to prevent gobbling up.

How can we determine the right timing?

It's necessary to determine a distinctive positioning of pure online banking within its own group.

A too broad offer (as far as customer segment as well as territory) may lead to gobbling up of users of other banks within the group.

Most retail banks have already developed a multichannel commercial strategy.

Their approach is mainly based on cost income improvement by transferring transactional activities of bank branches to other “innovative” channels. The risk involved in doing so is to create

an undesired segmentation of customers and consequently miss a good chance to develop possible relationship with customer and the opportunity to submit added value relationship products.

Optimisation of *cost income* itself does not help understanding and managing the development of business attitudes. Figures resulting from performances often represent average polarised management.

This concept when not supported by proper monitoring of the multichannel strategy impact on the physical channel, could lead banks to run the risk of devaluation of their intangible assets.

The transition from traditional banking towards new multichannel offer should occur tailoring offer and pricing to customer changing behaviour and to competition (Pic. 9).

To achieve this goal it is vital to develop multichannel management control to measure and provide evidence of these changes.

There is no supervision in making the transition from the “old” idea of the bank to the “new” idea

Pic. 8 - Online banking is looking for its right positioning. Source AVA, 2010.



Thus, in order to implement aligned multichannel strategy bank should develop multichannel management control to support their business strategy.

What should Multichannel management control deal with?

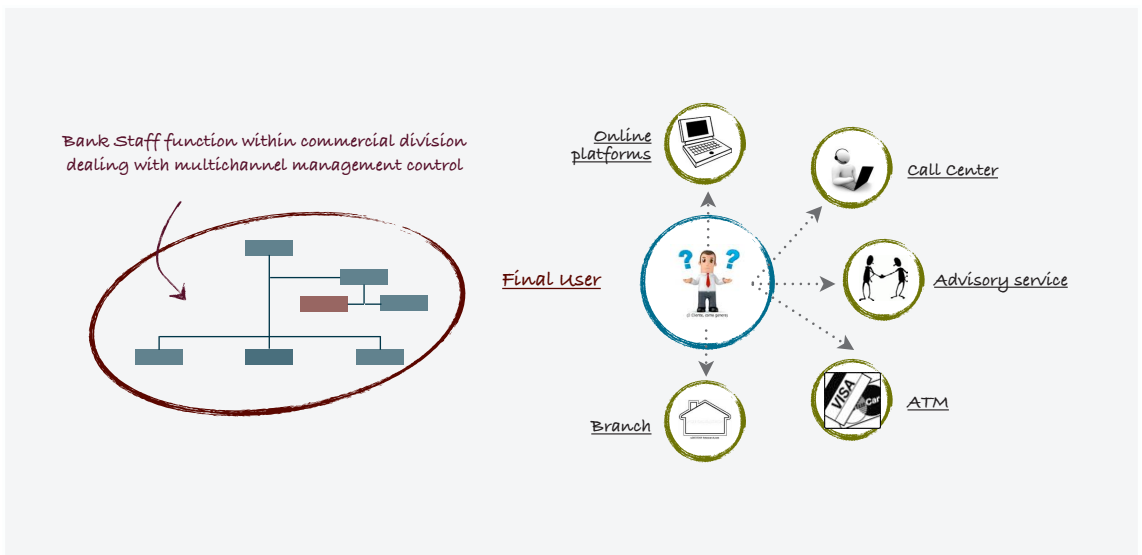
Given the fact that the main goal is to manage/monitor the implementation of a multichannel common strategy these are the following steps:

- Measure the effect of product pricing policies/ strategies on churn rate and on the use of bank branches (strategic pricing & performance analysis),
- Develop incentives to

The answer to modern challenges lies in the design of a new ideal banking model but, most of all, in timing

- support positioning of pure online banking within the group (network architecture),
- Provide evidence in order to define customer segmentation/portfolio to prevent undesired segmentation as a result of multichannel policy and in keeping with the positioning-goal (planning & contact management),
- Measure effectiveness and quality of marketing campaigns thus considering the way different branches are used(marketing research & analysis),
- Matching desired/best use of branches with customer behaviour/customer segment (branch layout).

Pic. 9 - The importance of multichannel management control. Source AVA, 2010.



Active Value Advisors.

T +39 02 36697100

F +39 02 36697101

E info@activevalue.eu

I www.activevalue.eu