Branch banking is still valid

By Mr Saliya Kumara

Can development in technology replace people?

Can development in communication eliminate branch banking?

Abstract

The adaptation of technology has not been fast as predicted and the cost of a transaction has not come down to $0.01 as predicted .Internet banking is still not a reality and people are still to be convinced with regard to security and privacy. The objective of this article is to review the branch banking system taking into consideration the views of various professionals in the sectors of IT and banking. It is accepted that decentralized decision making gives a faster service to regional customers, of course with an additional cost. Advanced communication systems influenced the traditional retail banking system suggesting that physical existence is irrelevant or not cost effective to fulfill this task. Now marketing professionals have discovered that "service with a human touch " has an edge over "automated service ".What they suggest is to have more and more branches but to keep the cost down by re-engineering the banking process with the latest technology. Actually use of online communication can reduce branch staff by 90% so that most other staff related overheads will also decline significantly.

Globalisation,Consolidations ,Mergers and Alliances will close bank branches?

Most businessmen endorse the views of the IT profession saying that technology will take over banking in the near future while most bankers believe that it will never happen .

Views of the Technologists ;(Stephanie Gates writing in February 1999).
"The next Banking revolution is on the way and by 2004 with a fresh wave of aggressive global consolidation, mergers and various alliances in order to achieve maximum dominance in the financial markets." The so called "tiny little cellular system" will disappear in the presence of huge economies of scale with the massive globalization process.

Stephanie further states that Rapid European consolidation –Huge reduction in bank branches-Huge growth in the financial services activity-Struggle to be key global finance players- Giants will partner with small players to develop new retail and wholesale financial products and services rapidly-Relationship and trust will always dominate top-end premium banking relationships-One click bank account changes will be on the horizon- Credit/Charge card use will grow as written cheques all but disappear.

Is traditional client relationship redundant?

Another belief widely accepted in the late 90's is "…New technology will make traditional client relationships redundant in the mass retail market, as more people become detached from their area branches and bank managers" . They also thought that Banks will respond by moving up market as fast as they can, chasing premium relationship in the private banking and corporate finance sector in the early 2000's. What we really experienced was opening of more and more branches especially by the private sector and among them Commercial Bank and HNB are very aggressive opening more than 100 branches in the last three years . Have they got it wrong ??

IT professionals say "…Differentiating through service rather than just price will be a key feature of corporate banking in the future." Ironically what we experience is something different when it come s to the definition of
" Service"; whether the "service" is the solution with sophistication or solution with a human touch ?

Now we are almost coming towards the end of the year 2003, but all predictions are still to become a reality .

Is adaptation of technology faster ?

Even Bill Gates states in his book "Business @ the speed of thought"(1999) that online settlements will come in a mega way in a couple of years. He says;

"Within a couple of years electronic bill payment will be offered by most of companies, and financial institutions will maintain a single site where customers can go to pay their monthly bills."

We can see some improvements in the online business but certainly not as fast as the way it was predicted.

Bill gates says the adoption of technology for the web lifestyle is happening faster than the adoption of electricity. Certainly the adoption of IT took off faster than electricity, TV or Telephone. But there is a huge difference between taking a television from a shop and setting it fixed and disclosing the credit card number in the web. If we examine carefully the following illustration (Figure 1) reproduced in page 118 of Gates's book, one can perceive that even adaptation of technology will take the same path though the take off is quick. The critical issue is, as far as money transfers are concerned, the security or the protection against errors and frauds. The perception of even the IT professionals is that exposure of a credit card to the internet is a risk which is not worth taking. The counter argument was ,"it will be in place soon". And they advise us to use a credit card with a small limit if we really want to use it in the web. So this proposition is long outstanding and is taking too much of labour pains to deliver.

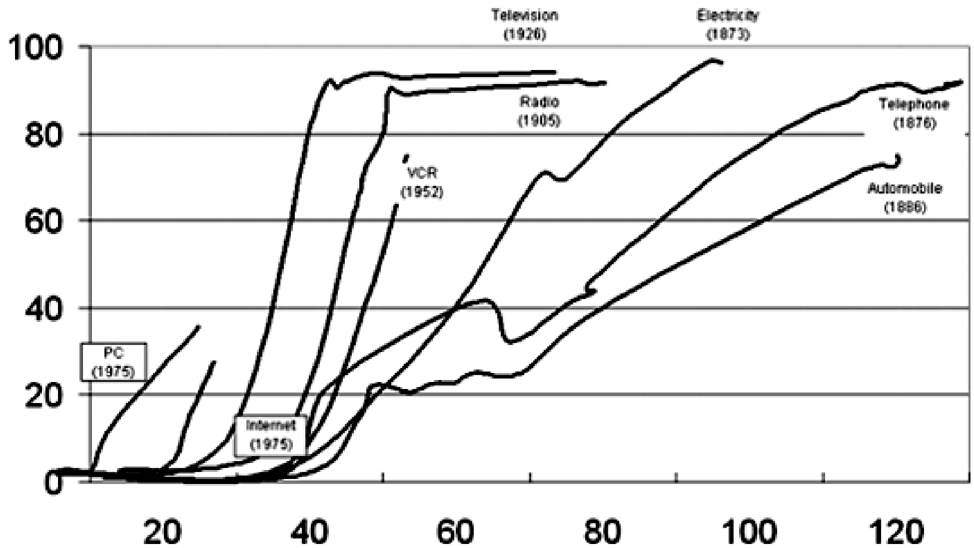

Figure 1 Adaptation of technology compared to Electricity, Telephone, Radio and TV

Years Since Introduction

Cost of a transaction

According to the predictions of the U S Department of Commerce on the Emerging Digital Economy in 1998 reproduced on page 74 by Gates, the internet will revolutionarily reduce the cost of the transaction from 50% to staggering 1000%.

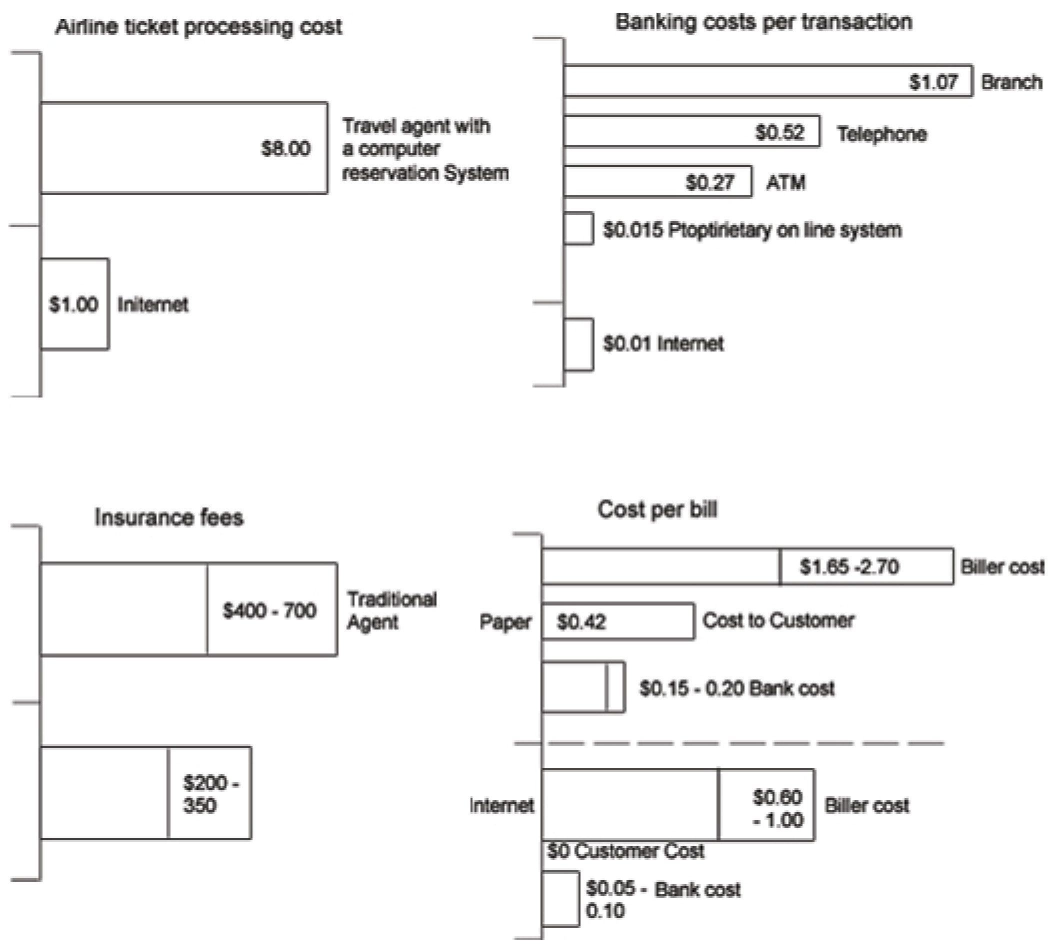

Figure 2 Prediction of cost of a transaction with Internet

Airline ticket processing cost Banking costs per transaction

Branch
Travel agent with a computer a computer Telephone
reservation system
ATM

$0.015 Proprietary online system

Internet $0.01 Internet Insurance fees Cost per bill Biller costs Traditional
Agent Paper Cost to customer $0.15 Bank cost - 0.20 --
Internet Internet Biller cost $0 Customer cost $0.05 Bank cost
- 0.10

Stephanie keeps on saying that many banks will be faced with a huge,urgent challenge of winding down and closing a large number of branches, with social, political and image issues….the most successful mega banks will maintain momentum in the financial market. She is warning us to watch because of the growth of online banking facilities ,growth in wireless banking, payments using mobile phones etc etc . All this can happen , it will happen but the point is when will it happen.

Why the adaptation is slow ?

It is very clear that there is a significant delay in implementing all these fascinating services. The major reasons can be listed as follows;

1. Huge cost involved in transferring the existing infrastructure system into an e- enabled environment

2. Non alignment of IT , Human Resources , Business Strategy and Other support services.

3. Lack of training and awareness

4. Security and Privacy

5. Human Interface

Bill Gates said “..It’s an electronic form of loss leader though the merchant ,without “:bricks and mortar” , may still eke out profit.

Now the thinking is that though one can do away with the bricks , the mortar is an essential ingredient in maintaining and strengthening customer relationship. Certainly for some products and services , the human touch may not be a must and therefore you could manage without bricks and mortar. But for the financial services where the security and privacy play a vital role they may not be ready to expose and thereby risk their valued customers.

Human Interaction is Important

Facing Up To The Future- Tony Ferguson, the Practice Director Unisys ,UK, says “…..Champion banks will exploit Face- To _ Face contact in a multi- channel delivery strategy to become trusted advisors…………….

,….. How will tomorrow’s champion retail banks achieve differentiation and competitive advantage? Though seemingly anachronistic in an era and an industry dominated by technology - it will be through their ability to apply the human touch - in short, their ability to deliver effective financial advice and guidance to their customers, especially face-to-face. Thus the branch becomes a rejuvenated channel, metamorphosing into “surgeries” where financial ills are diagnosed and effective treatment prescribed…”.

Lessons from the Internet

The severe losses experienced by most Internet-based wealth management initiatives taught us consumers not to buy sophisticated financial products over the Web. They may be happy “surfing” to gather information, but decisions on complex financial matters need the reassurance of face-to-face contact. Thus the challenge for banks is how to harmonize their multi-channel strategies around this fundamental human need.The comprehensive failure of the Internet to deliver a sustainable wealth management service, or even a profitable banking service, has proved an expensive education. With very few exceptions, Internet initiatives only raised the bar to unprecedented levels in terms of cost of acquisition. The enthusiasm for this medium has given way to a sullen re-focus on cost. Witness…·

- Lloyds TSB's closure of its Internet brand Create to new business ·
- Aviva's scaling back of norwichunion.com

Banking on the branch

Even the most successful of the internet bankers like Sweden's SEB, which boasted the highest uptake of online banking in Europe with 650k accounts out of a 1.5m base, have publicly admitted their inability to sell complex products over the Web. Banks in every corner of the globe are echoing their response – by committing resources to rejuvenate the branch network.

- Bank of America recently published their plan to open over 200 new branches in the US ·
- CIBC in Canada announced a $100m+ branch refurbishment program ·
- Bank West in Perth, Western Australia embarked on a programme to increase their physical locations by over 50% through opening metro branches and sales centres ·
- The rejuvenation of the branch manifests the dawning realization that this expensive channel can potentially become the key differentiator as banks and insurance companies battle for market share.

Bank branch in coffee shops and super markets

Some banks, further developed in their thinking on branch rejuvenation, are initiating interesting strategies to encourage customers back into the branch – for example, Abbey National's initiative with Costa Coffee. Some 20 "superstore" locations in the UK are banks and coffee shops combined. This met with early success; Abbey claims to have achieved a 76% increase in customer traffic. Another Abbey claim that customers are spending an average 21% more time in the branch is not only indicative of a step-change in attitude, but also represents the real challenge – how can banks successfully engage with their customers to mutual benefit? NTB started with Park & Shop, Commercial does it with Cargill's and Seylan tried it with Sathosa.

A competent financial advisor to replace 10 ordinary staff members

Tony is going to the extent that…."The stumbling block today is that branch employees generally do not understand finance! Yet every minute of every day, the branch is in contact with customers who have financial requirements, many of which they do not bother to reveal, some of which they may not even know they have!"Maslow's hierarchy of needs can be applied wherein, depending on specific circumstances (age, income, dependents, investments, liabilities, attitude to risk, etc.), bank customers have a hierarchy of financial needs that will span liquidity, protection, mortgage, pension, loans and investments. These continually need to be brought into dynamic harmony, representing opportunities to cross sell. The good news for bankers is that they already have much of the information required to enable the provision of advice, if they know where to look.

- The marketplace is indeed crying out for trusted advisors and today there is plenty of opportunity for both customer and trusted advisor!

Cost of infrastructure of a branch

Starting from rent ,elegant interior,furniture,power,water to security and sanitary services a branch will have so many cost elements in addition to the staff cost. How can we afford such initiatives? The strategy can be achieved within reasonable cost containment boundaries. Thus, while the number of physical branches will increase, the overall amount of floor space will reduce as branches are migrated to areas of high customer traffic like shopping malls. Experts say that a bank can increase branches by 50%, while reducing overall branch real estate by 50%. In terms of staff costs , better trained, multi-functional and more financially skilled FEW people will handle total operation. Merging teller and counselling functions by a total reengineering of banking process with the support of technology, the future of the branch as a "surgery" staffed with financial practitioners dispensing much needed advice is both desirable and attainable.

The winning Bank

The future winning bank will prepare its staff to recognize client needs and perform the dual functions of service and advice. It will have its trusted advisors at many customer convenience locations. The future winning bank will achieve 10-product relationships with its customers: in so doing, it will completely redefine the cost metrics on retention and acquisition. Of course a conscious attempt should be made to handle the traffic, during the heavy hours since all propositions depend on customer satisfaction..

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