Branch of the Future Not All That Different Than Branch of Today

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Stronger Performance, Sharper Earnings

Table of Contents

Introduction

It is easy to see why many think the branch is going the way of the typewriter. After all, there is a steady decline in overall transaction volumes in the branch (45% decline since 1991, FMSI Teller Line Study) and recent declines in the number of branches in the US (4.8% decline since 2009, **FDIC**). While many individual branches will likely see significant changes in how they operate over the next twenty years—or even shut-down—FMSI believes the branch in the coming decades will not only be alive and well, but will also, in many ways, be very similar to the branch of today.

With 94,000 branches in the US in 2014 (FDIC) with varying degrees of account holder bases, including: different demographics, socioeconomics and generational gaps, combined with geographic difference, it would be unlikely to see digital technologies cause a dramatic shift in how most branches operate in the coming decades. It is much more likely financial institutions (FIs) will continue to have a dynamic mix of branch types tailored to the individual branch goals and circumstances.

Unlike other vanishing retail specialty stores—like book and music locations—most consumers, at some point, depend heavily on the face-to-face expertise of financial service professionals. Naturally, with the significant impact banking products can have

on an account holder's finances, they often desire the extra attention to help establish trust and make sure they are getting the most out of each interaction. Ultimately, the trust and relationships developed in-person have been, and always will be, paramount in the financial services industry.

This white paper will review the current and future state of the branch in detail, and evaluate several different branch technologies—predicting how they are and can impact the future of branch banking.

The specific branch of the future types and corresponding technologies included are:

Branch Type	Technologies
Personalized Experience Upscale Model	Tablets
	Interactive Touch Screens
	Branch Activity Tracking Software
Self-Directed Technology Model	Smart ATMs
	Video Interactive Tellers
	Branch Appointment Software
Traditional Model	Forecasted Staff Schedulers
	Lobby Activity Tracking Software
	Branch Appointment Software
	Cash Recyclers

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Branch Banking Trends - Branches Closing, but Why?

The ratio of population to branches has declined from 9,340 in 1970 to 2,970 in 2014. (See fig. 1.1.) This staggering metric is a result from a nearly 300% growth in the number of branches since 1970, while the population growth was nearly half of that.

The Number of Branches Has Been Cyclical Since the 1980s

fig. 1.2

Total Number of U.S. Bank and Thrift Branches, 1989 - 2014

4.8% decline in banking branches

22.9% growth in banking branches

5.7% decline in banking branches

Source: FDIC

Ratio of Population to Branches
1970 - 2014

fig. 1.1

9,340

5,865

4,908

4,347

2,970

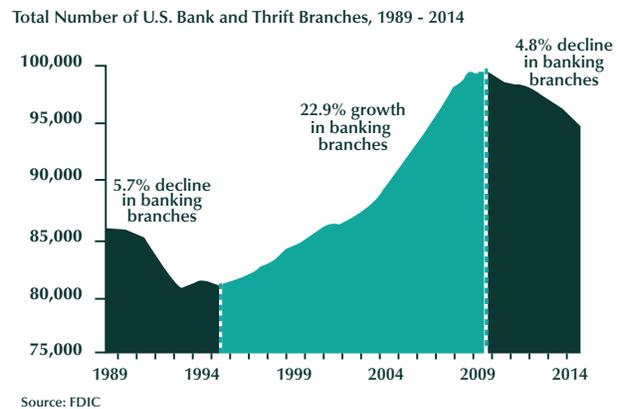| 1970 | 1980 | 1990 | 2000 | 2014 |

Coupling the decline in the ratio of population to branches (see fig. 1.2)and the recent decline in bank branches suggests the market is starting to correct itself from being "over branched," and not shutting down branches due to its functionality becoming dated.

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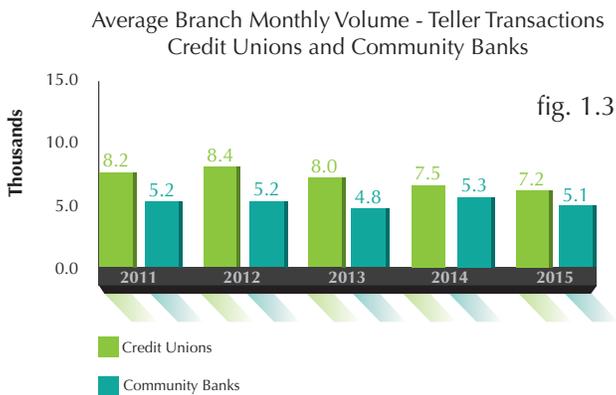STRONGER PERFORMANCE, SHARPER EARNINGS®

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Branch Banking Trends (con't)

For additional evidence to support the function of the branch being alive and well, look no further than branch teller transaction volumes in the last five years. **FMSI's 2015 Teller Line Study** reported a mere 1.9% drop in average branch teller transactions for banks and 12.2% drop for credit unions since 2011. (See fig. 1.3.)

Additionally, when looking at the big picture, recently published **US Census Bureau** activities show us that despite decades of growth, total e-commerce sales only represent 10% of all retail sales.

Average Branch Monthly Volume - Teller Transactions
Credit Unions and Community Banks

fig. 1.3

Year	Credit Unions	Community Banks
2011	8.2	5.2
2012	8.4	5.2
2013	8.0	4.8
2014	7.5	5.3
2015	7.2	5.1

Thousands

■ Credit Unions
■ Community Banks

For branches to close due to a mass exodus of transactions from the branch caused by digital technologies, we would likely have seen much sharper declines in this time period—during unequivocally the most digitized banking era.

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Different Branch Types, Different Goals

Whether it is in the future or today, a one-size-fits-all approach to branch banking can lead to dramatically under-performing locations. Simply put, a transaction-heavy branch should focus on transactions, and a sales-heavy branch should focus on sales. Of course, branch networks are rarely this black-and-white, leading to many gray areas on how branches should establish their annual goals.

Either twenty years from now, or today, when determining what type of goals each branch should have, start by researching the account base around the branch. You should be able to answer such questions as—what are the demographics and socioeconomics of the area, along with what are the potential competitive forces? In a more affluent area, with a large Baby Boomer population, a branch may benefit the most from increased sales training and branch sales acceleration technology investments. Conversely, in another area with a predominantly younger population with little money to invest, it might be a better idea to focus technology investments that drive a faster, more secure and optimized branch environment. (See page 6 for examples.)

Exploring current branch metrics is another great research spot when developing individual branch goals. Does the branch have a very large deposit base with an average of 10,000 transactions a month or greater, with no signs of decline—or does it have a large number of loans sold every month, with transaction volumes decreasing year-over-year?

Combining the understandings from the aforementioned two researched areas, along with other factors, is critical towards understanding what your branch is, and what your branch can realistically be. Serious harm can be done to the financial health of a branch if the wrong individual branch goals are established. For example, in an extreme case, if you try to turn a heavy-transaction branch into a sales-focused branch, and your geo-targeted account base socioeconomics has the propensity to have very little interest in HELOCs and new home loans, you could do irreparable damage to the reputation of that branch subsequently losing much of your account base.

Whatever your individual branch goals are, it is important to continuously look for ways to improve customer engagement, which can be a unique strategy for each branch. The following pages will review three different "branch of the future" types, and the types of customer engagement technologies that can make these branches successful.

Management Tip: Collaboration

As part of the branch goal process, it is important to have a coordinated effort between different departments, such as marketing and operations, as well as different types of employees, from front-line staff all the way up to the senior level managers. A collaboration of all the different assets of your financial institution is an essential part to achieving the branch goals that you establish. Consider delegating a project sponsor to these specific collaboration efforts, and hold quarterly meetings with department heads to review.

Branch of the Future: Personalized Experience Upscale Model

Often referred to as the Apple Store in banking, the personalized experienced upscale branch model aims to create a comfortable and trusting environment where account holders are impressed with hands-on, white-glove type treatment from associates. Other than the sleek design, the key to achieving success with this branch experience weighs heavily on the caliber of staff who work there.

Unlike traditional branches where activities are separated by divisions of labor (teller activity, lobby interactions), this type of branch mostly requires universal employees who handle the full-spectrum of the account holders experience.

Due to the increased per employee cost of this model, an FI needs to carefully consider the sales potential when rolling out these types of branches. As aforementioned, the branch account base needs to meet a number of data points to make a Personalized Experience Upscale Model a success, including: a high enough income level, the right age range with accessibility to the branch (especially, ideal for a more urban or suburban setting). FMSI predicts these specific and limiting requirements may cause this branch type to unlikely be the dominate branch type in twenty years.

Branch Technologies

- Tablets (both held by employees and in self-directed kiosk like stands)
- Interactive Touch Screens (educational, and/or mood-setting to establish ambiance)
- Branch Activity Tracking Software (carefully track interaction metrics in real-time like wait-time, assist-times and employee cross-sell ratios) Learn more about **FMSI's solution**

Management Tip: Hiring the Right Universal Associates

Consider candidates with any and all types of sales experience, but searching specifically in the retail industry (like the Apple Store) can be a great place to start. These individuals are adept to working with the average consumer off the street and, oftentimes, are used to working on Saturdays.

Self-Directed Technology Model

Probably what most of us imagine when we think of the "branch of the future" is the Self-Directed Technology Model, where the consumer's experience is focused on extremely fast, easy and secure interactions made possible by futuristic technologies.

These types of branches generally have the most potential in highly populated areas where space is limited and transaction volumes are high—but scaled back versions of this model also give FIs an affordable option to expand their services to more rural areas. With significantly less staffing requirements to keep these branches up-and-running, FIs will experience sizable cost savings over-time, when compared to more traditional branch operations.

Due to the affordability and reach of these branches, FMSI predicts these type of branches will see significant increases over the next twenty years.

Branch Technologies

- Smart ATMs (less expensive, and smaller than regular ATMs with special features, including: choose your own denomination cash withdrawals and mobile ATM authentication)
- Video Interactive Tellers (interactive video banking, see NCR's solution **here**.)
- Very Large Touch Screens (in each office for higher-quality lobby representative interactions)
- Branch Appointment Software (drives loan traffic to the branch, virtually eliminates account holders waiting in the lobby, and limits waiting for work time for employees.) Learn more about **FMSI's solution**.

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Management Tip: Technology Adoption

Many consumers are not interested in self-directed technologies, and tend to only use them when human interactions are either not available, or there are much longer wait times for the alternative. Once again, make sure to know your specific branch account base's tolerance for self-directed technologies. Some institutions have implemented soft roll-outs of smart ATMs and interactive video tellers to gauge the impact before removing tellers and completely overhauling a branch.

Management Tip: Training Branch Employees

It is imperative to properly train branch employees on how to get the most out of the technology. Without intimate knowledge of the true value of each machine, it is unlikely they will be able to properly convey how to be utilizing the equipment to the account holders. This will likely impact adoption rates, and lessen the effectiveness of the costly investment.

Traditional Model

An oldie-but-a-goodie, this branch type is familiar to us all. A row of teller windows, a roped off line and a handful of desks and/or private offices throughout, gives this type of branch a functional layout that works very well for many markets.

Like it or not, this model is here to stay for a number of years. As of today, the vast majority of branches operate in this way and, with an average of 6,500 transactions per month (**FMSI Teller Line Study**), they are still getting plenty of traffic. In fact, FMSI sees from its client base that a number of their branches have actually experienced an increase in transaction volumes over the past couple of years (possibly due to picking up lost customers from the mega banks).

Where this model is most effective is its design to handle as many face-to-face interactions as it can—and in an industry where a premium is placed on personal in-person exchanges—it can generally lead to a healthy number of deposits and loan activity.

FI management teams have spent an enormous amount of time and effort towards maximizing the earnings from traditional branches—which will certainly continue in the future, especially with emerging sophisticated technologies.

Branch Technologies

- Staff Schedulers based on activity forecasts (addresses the complexities of hour-to-hour traffic demands that make it difficult to precisely and optimally staff each unique branch—helping institutions to save a significant amount in excess staffing). Learn more about **FMSI's solution**.
- Lobby Activity Tracking Software (carefully track interaction metrics in real-time, like wait-time, assist-times and employee cross-sell ratios) Learn more about **FMSI's solution**.
- Branch Appointment Software (drives loan traffic to the branch, virtually eliminates account holders waiting in the lobby, and limits waiting for work time for employees.) Learn more about **FMSI's solution.**
- Cash Recyclers (automates low value cash transactions and drives efficiencies at the teller line)

Management Tip: Hours of Operation Analysis

Carefully study the operating hours of each of your branches. Perhaps you will uncover an opportunity to open the branches later or close the branches earlier—potentially saving hundreds of thousands of dollars in the process. Learn more about how FMSI can help with its **Hours of Operation Analysis** solution.

Management Tip: Steer the Right Service Inquiries to the Contact Center

At times branches can be flooded with service related visits that could easily be addressed over the phone by a Contact Center representative. Dedicate marketing efforts to educate your account holders of this option, and improve overall branch efficiency and effectiveness as a result—especially at traditional models.

Conclusion

Digitizing our world carries many advantages that will continue to steer us towards a faster and more efficient existence. Unfortunately, an increase in digital technology adoption can also lead to a decline in genuine human interactions—gradually leaving individuals frustrated with a lack of more personal relationships.

This lack of person-to-person exchange can be detrimental to many industries, but possibly none more than the financial services space. Naturally, with the significant impact banking products can have on an account holder's finances, they often desire the extra attention to help establish trust and make sure they are getting the most out of each interaction.

With the branch being the major conduit between account holders and their institution for building personal relationships—through face-to-face interactions—the current form of the branch will be a critical component in the future, just as it is now.

This white paper has reviewed the current and future state of the branch, and evaluated several different branch technologies—predicting how they are and can impact the future of branch banking.

The specific branch types and corresponding technologies FMSI evaluated included:

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About Financial Management Solutions, Inc. (FMSI)

Located in Atlanta, GA and established in 1990, FMSI provides easy-to-use, yet sophisticated, [software as a service solutions](#)—Omnix Staff Scheduler™, Omnix Interactive Dashboard™, Omnix Performance Analytics™, Omnix Lobby Tracker®, and Omnix Appointment Concierge™ — that allow FIs to manage and staff to meet their service and sales needs.

Omnix Performance Analytics and Staff Scheduler™

Put simply, while using FMSI's flagship product, the branch staff scheduler and reporting system, FIs of all sizes have been able to significantly reduce their operating expenses while improving service levels. The solution provides extensive monthly performance management reports including an executive Web-based dashboard and ranking report that consists of industry peer productivity metrics—for benchmarking purposes. In addition, the system's branch staff scheduler utilizes teller transaction data and employee profiles to align the right number of staff at the right times—resulting in a reduction of excess labor costs (idle time) and improved service levels.

The Omnix Lobby Tracker® (OLT)

Coupled with a queue management system (with iPad & Kiosk integration), upon implementation, OLT dramatically professionalizes the account holder service experience through an advanced eClipboard online portal—offering user service alerts and complete real-time service performance dashboard reporting throughout the institution's management structure. By providing 20 plus unique lobby service and sales reports including: individual sales and productivity reports, account holder volume reports, and cross-sell reports, FMSI's Omnix Lobby Tracker® (OLT) also effectively supports senior management in making critical lobby management decisions.

The Omnix Appointment Concierge™ (OAC)

FMSI's Omnix Appointment Concierge™ empowers your account holders with a powerful timesaving and convenient technology tailored for the banking environment. With this solution, your account holders can easily schedule a branch appointment through your institution's website, or mobile banking application.

The sophisticated application understands each of your individual employee's availability and skill sets, making sure to schedule the appointment with the right person at the right time.

For more information, contact sales@fmsi.com or call 877.887.3022.

See all other FMSI white papers on the next page.

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- 10 Best Practices from Other Industries FIS Can Adopt
- Top 5 Branch Practices Holding Your FI Back
- Universal Branch Associates– Re-evaluating Employee Roles
- Retail Branch Lobby Study
- FMSI Workforce Utilization Study
- Low Transaction Volume Branches–An Overlooked Opportunity
- Millennials' Relationship with the Branch
- 2015 Teller Line Study

- Exploring New Ways to Increase Branch Sales
- Salary and Benefit Study
- Achieving World Class Service with Technology
- Using Industry Benchmarking to Maximize Teller Results
- CFO White Paper–Leveraging Accessible Data for High Yield Results
- Part-Time Teller White Paper
- Incentive Pay and Branch Culture
- 2015 Teller Line Study

Appendix

FDIC Brick and Mortar Report (**https://www.fdic.gov/bank/analytical/quarterly/2015_vol9_1/ FDIC_4Q2014_v9n1_BrickAndMortar.pdf**) page 1, 2

FMSI Teller Line Study (**http://www.fmsi.com/pages/122/teller-line-summary-page**) page 1,3

U.S. Census Bureau News Quarterly Retail e-Commerce sales 3rd Quarter (**https://www.census. gov/retail/mrts/www/data/pdf/ec_current.pdf**) page 3