

Banking Automation **BULLETIN**



Japan leads the way in biometric banking

1.4 billion payment cards in Europe by 2013

The importance of branch-led channel strategies

Talon fails to grab Turkish IAD market

ACH web bears more fruit than another PEACH

Country profile:
Slovakia



The introduction of mobile EFTPOS is also expected to boost the installed base

► EFTPOS terminal growth despite their existing broad coverage. Small independent retailers and merchants in rural areas are actively being recruited by acquirers. For example, in Switzerland, street kiosks which sell magazines, food, drink and souvenirs are increasingly accepting card payments. Furthermore, in some countries such as Italy and Spain, multiple acquiring, whereby medium-sized and large retailers sign contracts with more than one acquirer, is a common phenomenon. In these markets, there is potential for further EFTPOS terminal adoption. There is also considerable scope for the expansion of card acceptance networks in countries that attract large numbers of foreign visitors.

The introduction of mobile EFTPOS devices is also expected to boost the installed base. For example, the installation of such terminals in London taxis in the mid-2000s gave rise to strong growth in EFTPOS numbers in the UK. Mobile EFTPOS technology also offers the potential for the adoption of multiple devices per outlet in certain sectors, such as in restaurants.

Finally, network effects are expected to be a strong driver of installation, especially in the developing CEE EFTPOS market. As merchants see more and

more of their competitors accepting cards, they will follow suit. Moreover, customers will increasingly expect it of their retailers and may well spend more if they can pay by card. Downward pressure on interchange fees and MSCs will also encourage more merchants to accept cards, as will falling prices of EFTPOS technology. RBR forecasts the number of terminals to increase by a CAGR of 11.6% in the CEE region, and in the more saturated western European market by 3.5%.

Growth to continue, driven in part by new developments

Over the next few years, some of the developing cards markets will see strong growth in card numbers, usage, spending and acceptance levels to bring them in line with maturing markets. Across Europe, more small merchants will accept card payments, usage will rise and the ATV will fall as consumers gain confidence in cards for making everyday payments in place of cash.

Furthermore, the developing areas of prepaid and contactless cards on the issuing side and new technologies such as mobile terminals on the acquiring side will extend card acceptance to new sectors and drive further growth in the market overall. ■

BRANCH BANKING

The importance of branch-led channel strategies

By David Cavell

Health check – good!

A report just published by Retail Banking Research (RBR) discusses how leading retail banks and other institutions across the world, committed to developing a deeper and more profitable relationship with their customers, still regard the branch as their principal delivery channel. This contrasts with comments by US-based consultancy Bain and Company, whose banking partner suggested that certain UK banks may have to consider closing up to 30% of their branches. These comments reopen the discussion over the critical success factors for branch strategies. The

RBR report illustrates how the suitability and cost of branch design, and the competence of the staff are major determinants of success. Shortcomings in any one will produce a sub-optimal business performance.

In addition, the practical interpretation of the brand at the branch is becoming increasingly significant as banks strive for greater differentiation. The use of the branch as a place within which to meet the community is a growing part of brand strategy. At a time when consumer confidence in the banking sector has never been lower, there is a need for institutions to ensure that their branch

The branch has a major role to play in projecting and representing the organisational brand in many practical ways

communications strategies speak out about their organisation's values.

New branch concepts

New branch concepts launched as vehicles for the testing of innovative ideas and technologies in a live environment have yielded many valuable lessons. Since 2005, Deutsche Bank has accumulated valuable experience from operating their 'bank of the future', which they call Q110 after the area of Berlin in which it is located. Umpqua Bank in the USA has been pursuing innovative branch concepts for many years and in 2007 opened their Innovation Lab in Portland, Oregon. The Innovation Lab has also been set up as a live branch, designed to test both new retail banking practices and a range of advanced technologies. Both projects are commitments to test and learn by organisations with a vision and the resources to pursue it.

The concept of environmentally friendly branches has been slow to develop. PNC Bank in the USA, however, has established a clear lead in the field, and has seen benefits arising for both the planet and its bottom line. The Cooperative Bank in the UK and Wachovia in the USA have also developed environmentally friendly branches in recent years. But few other banks have yet committed themselves to the concept.

Global best practice

Examples of best practice in retail banking are now to be found in most regions of the world.

In Kuwait, the corporate transformation programme of Burgan Bank, called Bright Future, has included the creation of a new corporate image and the development of a family of three branch models. In addition, the bank recognised the need to introduce new standards for customer engagement.

Caja Navarra, a Spanish savings bank, has pioneered the concept of customer empowerment within its market, calling it Civic Banking. As part of this new commitment, it has carried out an extensive remodelling of its network to make many of the branch facilities available for the benefit of the community, including its small and medium-sized enterprise customers (SMEs).

In Australia, the recent development programme run by Commonwealth Bank of Australia has included an award-winning overhaul of its branch

strategy. A redeveloped retail environment has been accompanied by an initiative to upgrade the quality of customer engagement by branch staff. And again, there has been an increased focus on the needs of SMEs.

The branch development programme being executed by HSBC includes an enhanced projection of the brand, a platform for improved customer engagement practices, and leveraging the bank's well developed self-service capability. Premier lounge facilities have been created at certain locations for the more high-value segments within its retail banking customer base.

In South Africa, Standard Bank has recently carried out a further major redevelopment of its retail format. The bank's latest branch design seeks to combine a modern African ambience with an enhanced ability to deal with heavy footfall. The bank is also building on the extensive experience that it has accumulated over two decades of deploying self-service facilities for use by all segments of the market.

Alternative business models

The retail banking 'proposition' is being delivered through an increasingly varied range of business models. For example, the Australian market continues to provide a favourable environment for the development of branch franchising schemes. 75% of the 279 branches within the retail network of Bank of Queensland are now operating under franchise agreements. And the programme has provided a means for the bank to expand nationally with a significantly lower capital outlay. Moreover, the new generation of experienced owner-managers are providing higher levels of customer service, including greater empathy with the small business sector.

Belgium and Germany are amongst the many markets where the postal sector is now posing a real threat to traditional banks. La Poste in Belgium has successfully drawn on its improved branch ambience and staff interpersonal skills to pursue a greater share of its consumer banking market. At Deutsche Postbank, the new generation of sophisticated branches is a fitting tribute in its centenary year to the progress that the bank has made to becoming a major player in its home market.

The aggregate membership of US credit unions continues to grow. Many now offer their members

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The deployment of staff with the knowledge, interpersonal skills and attitude to maximise the strength and value of customer relationships is critical

- ▶ full retail banking facilities through branch networks that match the quality and facilities of leading banks. And the CO-OP branch sharing organisation allows the members of over 1,260 credit unions to use the teller services of other such institutions across the country.

Other strategy issues

In-store branches remain firmly on the agenda despite some closures over recent years. The initial land grab of the mid-1990s quickly drove the number of outlets to around 8,000 in the USA. Despite some recent network reductions, many US banks have continued to deploy in-store branches successfully. By June 2009, US Bancorp had built what it claims to be the largest in-store branch network in the USA. The bank operated 722 such outlets within an overall network of 2,847 branches, and every in-store unit has at least one ATM. Delta Community Credit Union in Georgia exemplifies the US credit unions that are now using lower cost in-store branches to reach out to their members where they shop.

2009 has seen Tesco, a major UK retailer with an international network of stores, make a step-change in their approach to retail financial services. Having bought out Royal Bank of Scotland's 50% stake in the Tesco Personal Finance joint venture, the retailer is now opening financial services branches in its UK retail stores, with plans for a first wave of 30 units.

A major component of branch strategy that remains under-exploited is self-service. Most retail bankers would draw great value from a thorough review of the advanced solutions that are now available. The 16,000 branches of the German Sparkassen (community-owned retail banks) are among the leading exponents of self-service in retail banking. They deploy a broad range of terminals and functionality in their branches and have actively pursued customer migration. But they remain an exception.

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In conclusion

Retail banks are now facing increasingly powerful competition. Failure to take full advantage of the profitable relationship development opportunities that their branch networks provide will not only result in a loss of income but will also render them increasingly vulnerable to attrition. The following high-level observations seek to summarise the insights resulting from the research undertaken for this latest RBR report.

Most retail banks remain committed to a branch-led channel strategy, and continue to recognise the advantages of an attractive and effective retail environment. The branch has a major role to play in projecting and representing the organisational brand in many practical ways and in welcoming the local community and the bank's target customer segments.

The deployment of staff with the knowledge, interpersonal skills and attitude to maximise the strength and value of customer relationships is another critical success factor. This applies to institutions whether they are pursuing a product-push or needs-based sales strategy.

Furthermore, maximising the deployment of self-service equipment will have many benefits for the ambience and effectiveness of the branch. When properly executed, it need not result in pushing the customer away.

Finally, there is a critical requirement for the ongoing monitoring of branch effectiveness. In turn, this may occasionally indicate a need for the re-engineering of a branch or branch strategy, in order to ensure the continued achievement of the organisation's objectives – financial and otherwise. ■

This article is based on RBR's new report by David Cavell, 'Branch Banking: Best Practice and Case Studies'. David is an independent consultant who advises retail banks across the world on profitable delivery channel strategies. djc_laffans@btinternet.com

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