

Branchless Banking

Sherman Tan, PMP

03 May 2013

The Preamble

When I first started my banking career in 1986, I was assigned to a department that was responsible for two key functions. The first involved preparation and submission of regular and ad-hoc MIS reports on branches' profitability. Leveraging on these data analysis, the department was responsible for the strategic planning of the bank's network of branches and ATMs. The latter involved reviewing the bank's network of customer's touch points vis-à-vis its competitors and forecasting future demands arising from urbanization and demographic changes.

Besides tonnes of data to analyse, the next important document that I got hold of were research reports with similar titles such as "Banking in the 20th century", "Branch of the Future", "Remote Banking", etc. I recalled most of these research reports also have somewhat similar recommendations on what the future branches would look like and I speculated that all of them were glazing through the same crystal ball. Listed below were some of the key recommendations:

- Customers will demand after hours banking services so as part of branch design configuration, a self-service banking (SSB) lobby would have to be carved out from the branch premise. This SSB lobby must be accessible to the public even when the branch or the building is closed after office hours
- When such configuration is not possible, the bank must negotiate with the landlord to install off-site ATMs that are accessible after the building is closed for business
- Considering the high rental cost of prime location, only the customer service/sales counters are to be located on the higher rental floor with the banking transaction counters (or the Banking Hall) to be tucked away or located on the upper floor where rental is lower
- Since cost per transaction of the ATM and automated telephone banking services are a fraction of counter transaction cost, many authors of these research reports advocated a 4-tier branch physical layout. The first tier of contact comprise the SSB lobby followed by the customer service/sales counters, then the teller counters and the last being the back office
- Moving away from "brick" façade, high glass and open concept of branches with neon lights, removable display/advertising light boxes, colourful and eye-catching brochure stands were introduced to mimic the retail store
- In promoting use of SSB, "meet and greet" bank personnel were positioned in the banking hall to screen and filter customers from the long queues to encourage them to use those automated banking facilities
- Since ATM and SSB terminals during the 1980s and 1990s have limited range of services, interactive voice response (IVR) automated phone banking system were core investment made by banks during those years

Although we are now in 2013, we still find many of these recommended features put forth in the 1980s still entrenched as part of the branch configuration for many banks.

The prevalent adoption of internet, mobile internet and social media by the masses across the globe since the late 1990s have resulted in changes in customers' preference in terms of how they want to interact with their banks. However, many banks seem to take much longer to respond to these changes and continue to locate their branches near customers' homes and work places while keeping their branch configuration largely unchanged since 20 years ago.

So what's the blueprint for the Branch of the future?

Branch of the Future

Not long ago, customers of Citibank Singapore Ltd received a news update from the bank's CEO, Han Kwee Juan. Amongst other things, he shared that with Citibank Express, customers will be able to conduct almost all the banking service 24/7 without visiting a branch. While the full functionalities will be rolled out in phases, Citibank customers can now open new banking and cards account, deposit cheques, get customized offers and speak to a CitiPhone Officer through video chat. Customers who are hoping that they are able to carry out all the banking services at the comfort of their home will be disappointed as Citibank Express is a stand-alone self-service banking terminal that is located at the branch premises but accessible 24X7 or at off-site location.

Citibank Express is one of the key outcomes of the Citibank Smart Banking project which has also resulted in the first Smart Banking branch being launched at the Orchard MRT station (Singapore) in end-Nov 2010. The 1,000 sq. feet branch features display panels forming media walls, interactive touch-screens, "face-to-face" phone banking and video-conferencing facilities for interactions with banking specialists. Till date, Citibank has set up over 100 smart banking branches across its regional network.

DBS Bank, one of the largest banks in the region has also deployed innovation and technology in its flagship branch that was relocated from Shenton Way to Marina Bay Financial Centre.

While the above examples provide a glimpse into how branches will be designed in the future; many banks are still struggling to balance the high investment and operating costs to set up "smart" branches while continuing to invest in online banking service expansion so that customers can conduct more banking transactions in a self-service manner thereby reducing cost per transaction. Banks' planners are always caught in this dilemma: move transaction online so that branch visit for routine transactions can be reduced but several studies have shown that once customers got out of branches; getting them back for value-added services will be a challenge.

In the past, bank branch design was primarily focused on servicing the local community where the branch is located and quite often, branch design are tweaked to service this purpose. But with banks going regional, their customer profile has also changed resulting in the need to have a unified branch design so that their regional customers are accustomed to the physical environment and services regardless of where the branches are located across the region.

Customer's Device: the Emerging Intermediary and Its Concerns

As smart phones and tablets continue to out shipped the desk-top computers and notebooks, it is not uncommon for the average users to use their mobile devices to fulfil a wide range of lifestyle needs such as social media, email correspondences, work, entertainment and even make payment and perform banking transactions. The concentration of different usage types means an exploit of the single device will create havoc for the users.

Moreover, recent statistics revealed by DBS showed that internet banking is no longer being used mainly by young and the tech savvy but increasingly by senior citizens (age 55 years and above) and the well off. For instance, the number of internet banking transactions by senior citizens increased by 37% last year since 2010. On the other hand, over 53% of the bank's High Network Worth (HNW) customers performed internet banking compared to only 40% of the retail customer base. If such trends are also prevalent in other banks, the potential financial losses of these two customers segments will be much higher in the event of compromise in online banking security.

Although the banking authority in Singapore had mandated the use of hardware token for login, transaction signing for high value and critical services supplemented by sms and email alerts; customers must continue to exercise vigilance when using online banking services with their own devices. After all, there is always the trade-off between convenience, usability and security.

Sherman Tan, PMP is the Principal Consultant & Director at Innovar Pte Ltd (www.innovar.com.sg). He can be contacted at enquiry@innovar.com.sg.