

A bank branch for the digital age

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Introduction

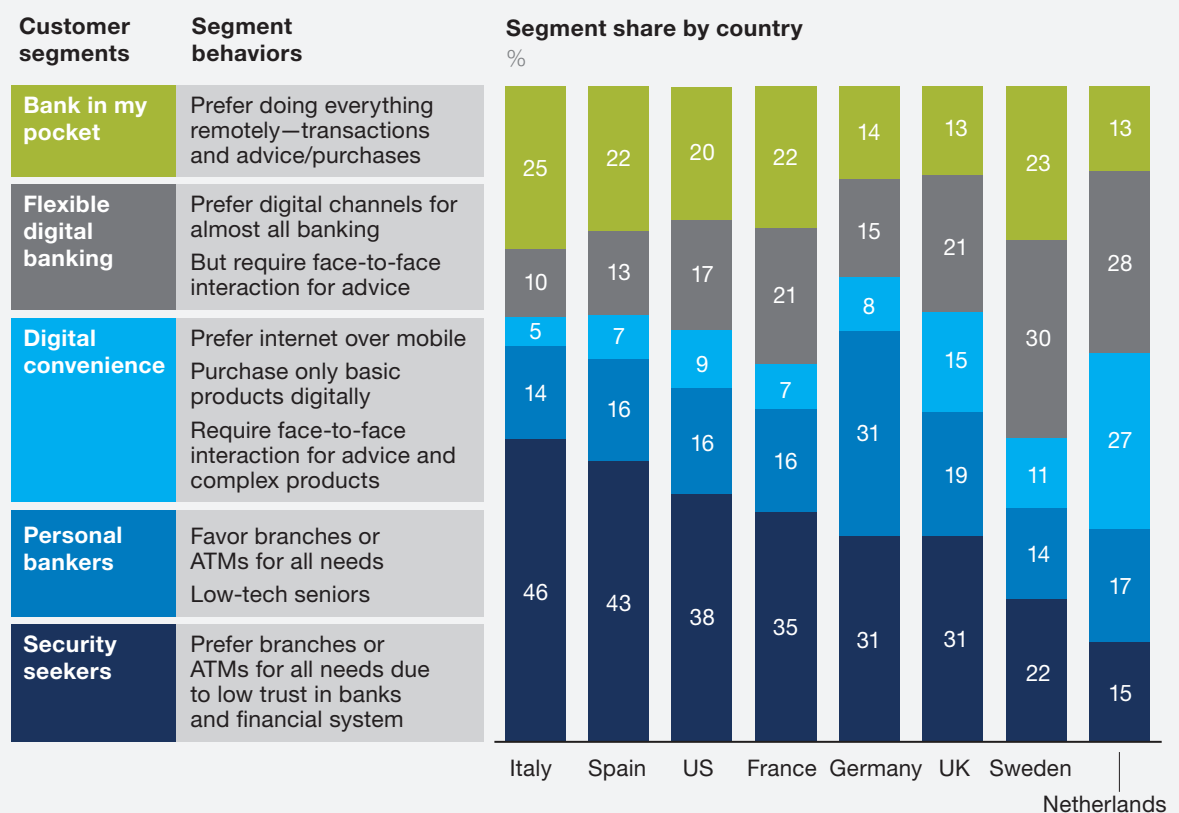
The bank branch—as we know it—with tellers behind windows and bankers huddled in cubicles with desktop computers, is in need of reinvention. Most customers now carry a bank in their pockets in the form of a smartphone, and visit an actual branch only to get cash or, occasionally, advice. Globally, financial institutions now process far more transactions digitally than in branches, and since the financial crisis of the late 2000s, over 10,000 US bank branches have closed, an average of three a day.¹ Despite such systemic

changes, branches remain an essential part of banks’ operations and customer advisory functions. Brick-and-mortar locations are still one of the leading sales channels, and even in digitally advanced European nations, between 30 and 60 percent of customers prefer doing at least some of their banking at branches, according to McKinsey research (Exhibit 1).

Changing customer behavior and the emergence of new technologies do not spell the end of the

Exhibit 1

Digital channels are on the rise, but a significant percentage of customers still prefer branches for at least some banking needs



Source: McKinsey 2016 Retail Banking Multichannel Survey; Finalta Digital and Multichannel Survey

¹ “Withdrawal symptoms: The closing of American bank branches,” *Economist*, July 27, 2017, economist.com.

branch, but rather the advent of the “smart branch.” Smart branches use technology to boost sales and significantly improve customer experience. When done right, the concept transforms the way a bank branch operates (reduced staffing), significantly lowers real estate requirements, and alters customer interaction (targeted, relevant sales and service-to-sales)—with a resulting 60 to 70 percent improvement in branch effectiveness, as measured by cost savings and increased sales.

Our research shows that although many banks have started to adopt elements of the smart

branch model, most are not extracting the full value potential. Making branches smart is not a matter of simply installing new machines or buying a suite of tablet computers. Smart branch transformation builds on three pillars: 1) the seamless integration of cutting-edge branch technology, which has become cheaper, more reliable, and more accessible; 2) the adoption of radically new, teller- and desk-free branch formats at every location; and 3) the use of digital technology and advanced analytics to improve the operating model in branches, including personalized, data-driven sales and real-time performance management and skill development.

Smart branch technology

For retail banks, technology has several goals: the migration of transactions and sales to digital channels; 24/7 customer access for every interaction; a personalized approach to sales; and a unified, omnichannel user experience—meaning that customers get a seamless experience whether they are online, on an app, or at the branch. Customers should be able to come into a smart branch any time of day or night and quickly get anything they need, from new products like loans or credit cards to service. And no matter what device they use, the user experience should be consistent. A number of technology solutions can enable these goals (Exhibit 2).

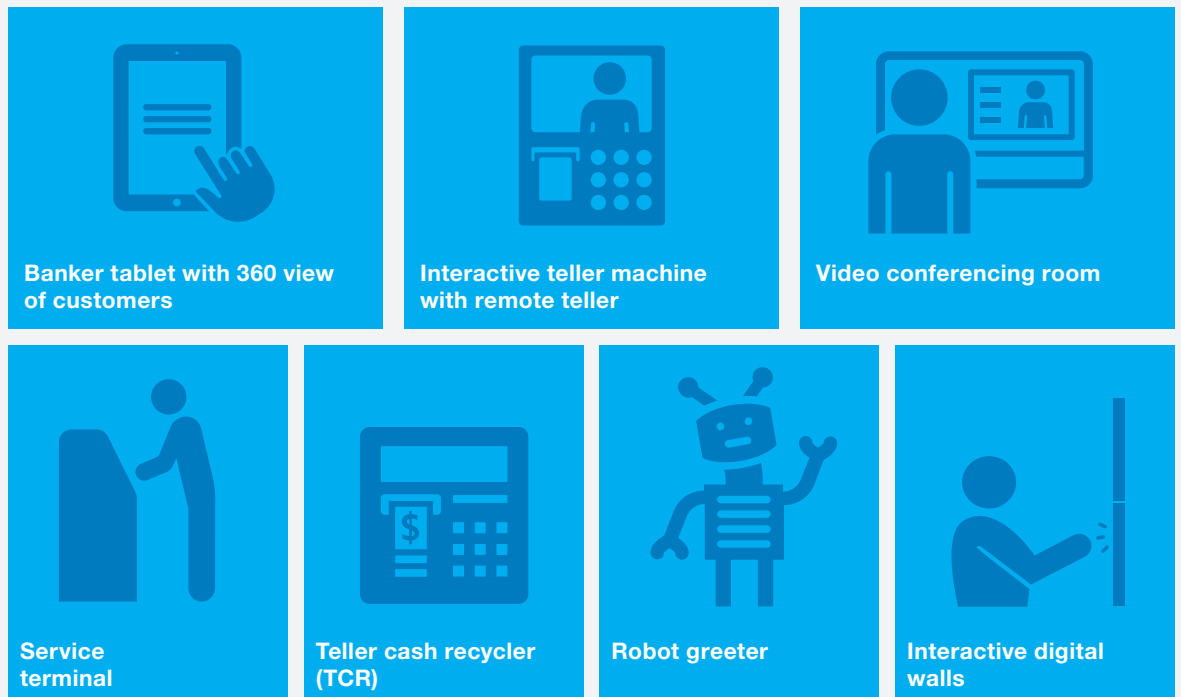
Next-generation banker tablets. Tablets give bankers the freedom to roam the branch—much

in the way that Apple Store employees do—enabling them to increase sales and provide superior customer service. Four critical features allow bankers to be truly effective:

- *Live customer transparency dashboards* alert bankers when customers make transactions at branch machines like ATMs, so they can offer support or personalized offers.
- *Advanced customer relationship management (CRM)* software gives bankers a holistic view of a customer relationship and history of interactions with the bank, including applications, payments, and product holdings. New CRM platforms use comprehensive customer data and next-generation analytics-

Exhibit 2

Smart branches employ a range of technology solutions to provide full service at any time.



Source: McKinsey analysis

based models to generate real-time, next-best-product recommendations. Using this approach, a bank in the Middle East increased its service-to-sales conversion from 1 percent to over 4 percent.

- *Digital sales modules* allow bankers to use their tablets to meet customer product needs, from credit cards and auto loans to mortgages, insurance, overdraft protection and deposit accounts; they also support new customer onboarding. The tablets are equipped to scan and upload documents onto bank systems, read fingerprints, ID cards and passports, and perform credit scoring. These capabilities are also integrated with branch technologies such as instant credit- and bank-card printing and back-office automation. A number of banks across the US, Europe, and the Middle East have seen significant improvements in customer experience as a result of fully digital two-minute current account opening.
- *Assisted migration modules* allow bankers to migrate customers to digital channels for everything from money transfers, address and email updates, and check cashing, to large check deposits and withdrawals. Several banks have designed a “self-service” experience in which a banker can walk the customer through the process, leading to higher digital adoption and customer education.

Interactive teller machines (ITMs). ITMs embed most branch services into a machine; in remote locations, they can function as a “branch in a box.” By incorporating remote connection to a human banker, ITMs effectively extend branch hours to 24/7 and allow customers to do most of the things they would normally come to a branch for: for example, deposits, account transfers, cashing checks, getting statements, and

authenticating over-limit cash withdrawals and money transfers. Customers can also apply for and receive products like credit cards, debit cards, and loans. Customer authentication technologies include national ID/passport readers, fingerprint scanners, two-step mobile authentication, digital signature verification, and even facial recognition.

Service terminals. With fewer features than ITMs, service terminals are simple, inexpensive devices that can be placed both inside and outside of branches (e.g., in shopping malls). Their main objective is to help less digitally inclined customers feel comfortable with the experience of digital banking. They provide the same user experience and interface customers would get on a mobile device and process nonfinancial transactions such as statement requests; they can also transfer money between accounts, and accept applications for new products (e.g., credit cards). Service terminals also present personalized offers that customers can respond to on the spot and use the same customer authentication capabilities that ITMs use.

Video conference rooms. Located in the self-service area of the branch, a dedicated and secure room equipped with VC technology and co-browsing software is accessible at all hours. Where most individual customers will gravitate toward ITMs, video conferencing rooms are mainly there to serve small and medium-sized businesses or individual customers with complex product needs, such as mortgages. Customers can use video conferencing to get sophisticated advice, open lines of credit, sign letters of guarantee, and update their business details, all in a confidential environment. A number of banks in the UK and Scandinavia are already using video conference rooms in advanced ways.

Interactive welcome screens/walls. Imagine a customer passing by a large video monitor inside

her bank branch. She is recognized by facial recognition software, and identified through data analytics as not owning a car. Immediately, her image is superimposed in front of a new vehicle; the screen prompts her to knock on the window, which opens the “car door” and gives her a view from the driver’s seat. She is asked if she is interested in a car like the one shown, and if she replies “yes” she is offered a low-cost loan,

based on the bank’s existing data on her. A nearby banker, alerted by his tablet’s customer transparency dashboard, comes over to provide more information. This is one example of how interactive walls can capture customers’ attention and gamify interactions and product marketing. On a more basic level, interactive welcome screens can greet customers and immediately direct them to appropriate channels.

Smart branch formats

In a traditional bank branch, 70 percent of the floor space is devoted to tellers and other assisted sales and servicing areas, with 30 percent dedicated to self service. Smart branches flip this ratio, and have a significantly smaller, simpler, and more streamlined footprint. Instead of wandering around trying to figure out where they need to go, customers are immediately approached by an employee who guides them to an intuitive piece of technology or assists them directly on their tablet. With the exception of a few large flagship branches, teller counters and most of the back offices are gone. In their place is a distinctive layout constructed from three building blocks:

- **Self-service area:** Located at the entrance of the branch and taking up most of the space, the self-service area is the core of the smart branch. It is open 24 hours a day, and offers ATMs, ITMs, service terminals, interactive digital walls, robot greeters, and a video conferencing room.
- **Standing desk zone:** Within the self-service area, bankers at standing desks can proactively approach customers for sales and assisted servicing. Standing desks also signal to customers that transactions will be quick and efficient—no need for a long sit-down.

Exhibit 3

Smart branches come in four distinct formats, based on what is most effective for a location.

	Box branch	Standard branch	Segment branch	Flagship branch
Overview	Fully digital booths (fitting one customer) with secure entry	Small branch combining digital solutions with assisted human interface	Branch with relationship managers to serve specific segments	Central/main full service branch
Size	<10 m ²	<140 m ²	140 - 250 m ²	>250 m ²
Accessibility	24/7	Standard hours for in-person servicing 24/7 self-service availability	Standard hours for in-person servicing 24/7 self-service availability	Standard hours for in-person servicing 24/7 self-service availability
Staffing	0 FTEs	3-4 FTEs	5-7 FTEs	>8 FTEs
Modules	ITM and/or self-service terminals	All technology elements	All technology elements Segment relationship managers	All technology elements All segment relationship managers 1 rotational banker as teller (by exception)
	Suitable for remote areas	Most of the network (85%)	~10% of branches	~5% of branches

Source: McKinsey analysis

■ **Priority lounge:** Larger branches will include priority areas for premium advisory services and support for customers and businesses.

Smart branches will all share a streamlined, more efficient design, but there are several archetypes banks can use based on what is most effective for a particular location (Exhibit 3). Booth-sized, fully self-service *box branches* with no full-time employees are ideal for remote or rural areas. *Standard branches* with three to four full-time

employees will comprise most of a bank's network (85 percent). *Segment branches* have a few more employees and several relationship managers who help serve customers in specific segments, such as those requiring affluent banking services. Located in more populated, urban areas, large *flagship branches* are only about 5 percent of the network, with typically more than eight employees and one rotational banker double-functioning as a teller.

A new operating model for a new branch

The advent of the smart branch has implications beyond the redesign and reformatting of customer interactions. It also requires fundamental shifts in how banks think about and support the branch and its employees.

A technology first and needs-focused mindset. Digital technology should not be an add-on to existing practices and processes. It should be built into customer interactions and employees' day-to-day work. The goal should be to migrate more than 90 percent of simple customer activities to assisted or self-service formats, to have simple and unified paperless processes for sales and service, and to use next-generation analytics to deliver personalized offers that are truly relevant for customers. Where traditional bank branches are reactive and service-oriented, smart branches are proactive and focused squarely on customer needs.

Transformed roles and capabilities. In the smart branch model, almost all branch employees will be multiskilled sales/service bankers, and will spend 90 percent of their time on targeted, analytics-driven activities. With most simple sales and service customer needs met through self-service tools, the need for greeters or tellers will be reduced. And the employees that do staff the branch will be equipped to deliver more for customers when they need it.

Importantly, technology doesn't just make life easier for customers; there are effective tools to train bankers in the higher-value functions of delivering advice and sales offers. Gamified training videos on tablets make instruction engaging and efficient, and can be tailored to an individual banker's needs based on her performance with actual customers so that time is not wasted on irrelevant training. Chatbots can give bankers instant access to information about a bank's latest product offerings and policies, as well as details about their own performance metrics.

Digital performance management. Digital tools can improve performance of branch employees and the branches themselves. Digital huddle boards, for instance, can be highly effective for planning the daily goals and strategies of both individual bankers and teams. They add to self-reported performance metrics by looping in data from sources such as ITMs and tablets, and an analysis of customer movements within a branch that are generated from facial recognition software. Branch managers can get transparency into employee performance through a simplified command center on their tablet. The command center can include live feeds, tracking of which employee is using which tablet module, status updates on a banker's adherence to standards, and daily management briefings automatically prioritized toward the most pressing problems.

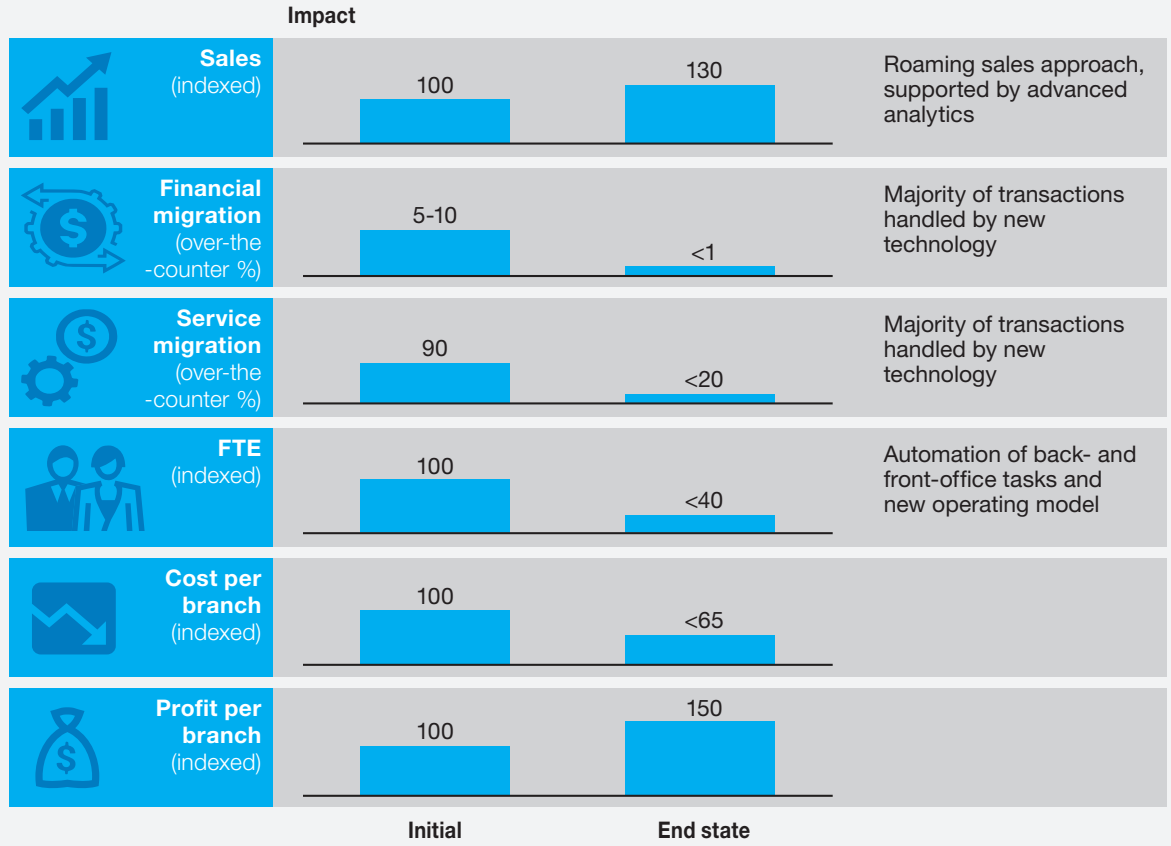
Recent time and motion studies have shown that the expectations of branch resourcing models are considerably out of line with the actual workload. An accurate view of the duration of common activities—such as transactions—as well as untracked customer demand, leads to more realistic resourcing models. Advanced management dashboards that track real-time workloads and sales results give managers the flexibility to shift resources as required in a fact-based manner.



With the right tools and models in place, bank branches can deliver radically improved, inspiring customer experiences. The bottom-line impact from a shift to smart branches will also be significant—considering that physical branches account for the majority of a bank's operating expenses. Cost-saving elements include transaction migration, self-service technologies, and smaller branch footprints. On the revenue side, analytics-driven service-to-sell, digital sales support tools, near real-time digital performance

Exhibit 4

The impact of smart branches can be seen across a range of metrics.



Source: McKinsey analysis

management, and enhanced banker capabilities all contribute to increased sales (Exhibit 4)

Far from rendering the bank branch obsolete, technology holds the key to the branch of the

future. To reap the full value potential, a bank needs to fully commit to the smart branch model, equipping its bankers—and their branches—with the tools they need to succeed.

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