

## Is This Really a Bank?

Exploring new trends in financial services



Not long into the 1990s, financial pundits began proclaiming that traditional banks were dinosaurs, doomed to extinction by technology that allowed folks to conduct business without ever setting foot in a brick-and-mortar branch.

Since then, however, banks have hardly become extinct, though they're certainly acting carnivorous, gobbling up one another in an unprecedented series of mergers and acquisitions.

Merger mania hit its stride in the early 1990s with the repeal of interstate banking laws that kept many banks from doing business across state lines. Next, the 1999 repeal of the Depression-era Glass-Steagall Act created a wave of opportunity by eliminating barriers between banks, insurance companies, and securities firms.

Today, the three industries are one big, fiercely competitive family, all eagerly elbowing into each other's lines of business. It's now possible to buy stocks at the same place you keep your checking account—or, if you prefer, get your mortgage from the same place that insures your house.

The new financial order has encouraged banks to ally with insurers, securities firms, and each other—either to expand their product line or capitalize on the efficiencies consolidation makes possible. This consolidation binge has claimed thousands of banks. At year-end 2003, according to the Federal Deposit Insurance Corporation, there were just 7,769 commercial banks in the United States, about half as many as in the peak year of 1984.<sup>1</sup>

Oddly, though, bank branches are thriving like never before. During that same span in which the number of institutions halved, the number of branches did just the opposite, soaring some 60 percent to more than 67,000.<sup>2</sup>

What's going on? For starters, many big regional and national institutions have responded to deregulation by developing a high-profile branch network nearly as ubiquitous as McDonald's. Meanwhile, the industry has abandoned hope that technology—namely, online banking—would allow it to sharply pare branch operations.

Like automated teller machines (ATMs) and telephone banking before it, online banking has proved popular, but not at the expense of the



branch network. Financial institutions that tried to nudge customers out of their branches and into alternative delivery channels suffered a backlash. Discontented customers switched their allegiance to competitors touting a commitment to “old-fashioned” service, and the industry reluctantly concluded that the branch network was here to stay after all.

“Technology tends to have a layering effect on the financial services industry,” says Peter Miscovich, a workplace transformation specialist with PricewaterhouseCoopers. “Debit cards didn’t replace paper checks; they supplemented them. Likewise, consumers have made it clear that they want Internet banking and brick-and-mortar branches to exist simultaneously.”<sup>3</sup>

### Flat employment, new workplaces

The overriding trend in retail banking—fewer institutions with more branches to service and more products to sell—has a number of implications on employment and the workplace.

For starters, merged banks are usually quick to eliminate redundant back-office jobs in an effort to streamline operations and thereby realize the cost savings promised by consolidation. Technology also plays a role in holding back job growth, as does the trend toward outsourcing clerical, customer service, and information technology jobs to developing countries. Reason: As competition fuels the need for cost containment, it doesn’t take long for financial institutions to cast a critical eye on their labor force and to reduce it by investing in technology, cheaper labor overseas, or both.

Overall, the financial services industry is expected to experience a nearly flat growth rate in employment at least through 2012 as consolidation and automation make banks more efficient.<sup>4</sup>

The brightest spot seems to be in the front office, or branch level, where the industry’s penchant for branch expansion should open up opportunities—perhaps not so much among tellers as among financial advisers responsible for selling nontraditional investment and insurance products.

In the workplace, the consolidation trend has led to a greater emphasis on open-plan environments in headquarters and back-office applications. No surprise there. After all, it’s difficult to begin breaking

down the psychological barriers between newly merged institutions without first eliminating the physical ones.

It’s at the branch level, however, that the most striking changes are taking place. Eager to persuade customers to consider them for more than just checking and savings accounts, retail banks and credit unions are rethinking their interiors to make it clear they’re not just perpetuating business as usual. The result, often, is a complete rejection of outdated ideas concerning how a branch should look and function.

### Implementing a sales culture

Perhaps the single most important factor behind the resurgence in branch banking is the desire of many financial institutions to transform themselves into one-stop financial supermarkets. As banks and credit unions focus on growing their revenue through nontraditional products, such as investments and insurance, they’re finding that the branch—and the personal interaction it provides—is the best environment for making the sale.<sup>5</sup>

The old service model in which staid bankers sat behind desks and waited for customers to come to them retired with deregulation. Today, financial institutions speak hopefully of implementing a sales culture—one that encourages employees to aggressively seek new customers and sell more products to existing ones.

Though hiring and training practices can go a long way toward creating this sales culture, the look and layout of branch interiors also play a role.

One tactic now used by many financial institutions is to assign a special greeter to meet customers at the branch door and point them in the right direction. These folks aren’t just receptionists—they’re more akin to concierges at a fine hotel. Often, banks and credit unions assign their most personable and professional people to the task, hoping to make a profitable first impression.

Once inside the branch, customers are likely to find more private areas than in years past, the privacy being conducive to one-on-one conversations about mortgages, investments, or insurance.

With these private areas at their disposal, financial institutions no



longer have an incentive to conduct as much business as possible at the teller line. Quite the opposite: Today, tellers are often encouraged to refer customers to an officer when problems or questions come up. The goal is to get customers out of the teller line and into a private office, where the dynamics are more favorable for building relationships, identifying needs, and selling additional products.

Financial institutions are also introducing a number of innovative design elements to facilitate cross selling in their branches. Touch-screen kiosks that educate customers about bank products are common. Also popular are televisions strategically positioned to pass along product information and financial news to customers as they queue through the teller line.

And here's something else: Pneumatic tubes are no longer just for the drive-thru. The Vermont State Employees Credit Union, for one, has equipped the offices of its member service representatives with pneumatic tubes that send transactions to the teller area, much like those used in drive-thru windows.<sup>6</sup>

Why? Let's say a customer is meeting with a member service representative to open a checking account, but wants some cash back from her initial deposit. Instead of leaving the customer to visit the teller area, the representative can simply forward the transaction via pneumatic tube—and make conversation while waiting for the cash to come back. Those few minutes might be all it takes to learn that the new checking account customer is also a prospect for a credit card or retirement plan.

### The retail look

To remove any doubt about the importance of cross selling, many banks have even begun referring to their branches as "stores." But it's not just semantics. New branches often emulate the look and feel of a retail store with eye-catching product displays and roaming "clerks." The overhaul is so complete that it's not unusual for customers to do a double take when visiting a new or redesigned branch for the first time.

The trend toward the retail look started with credit unions ("We're not a bank," they seemed to say, "so why should we look like one?"). Next, community banks picked up the refrain, eager to distinguish themselves from megabank competitors. Once they saw how well

customers responded to the retail approach, many of the biggest names in banking began making the transformation, too.

The retail look serves multiple purposes: It reminds employees to think and act like retailers. It invites customers to linger and shop for financial products, much as they would in a department store. And it creates an environment in which building relationships takes priority over conducting transactions.

"Your competition isn't just the bank or credit union down the street," says Cynthia Grow, a vice president with DEI Incorporated, a Cincinnati-based design/build firm that specializes in the financial services market. "It's Target, it's Federal Express, it's anyone who satisfies customers better than you do. Just ask yourself where you like to eat, where you like to shop, and why. You want to give your customers a 'wow' feeling the second they walk in the door."<sup>7</sup>

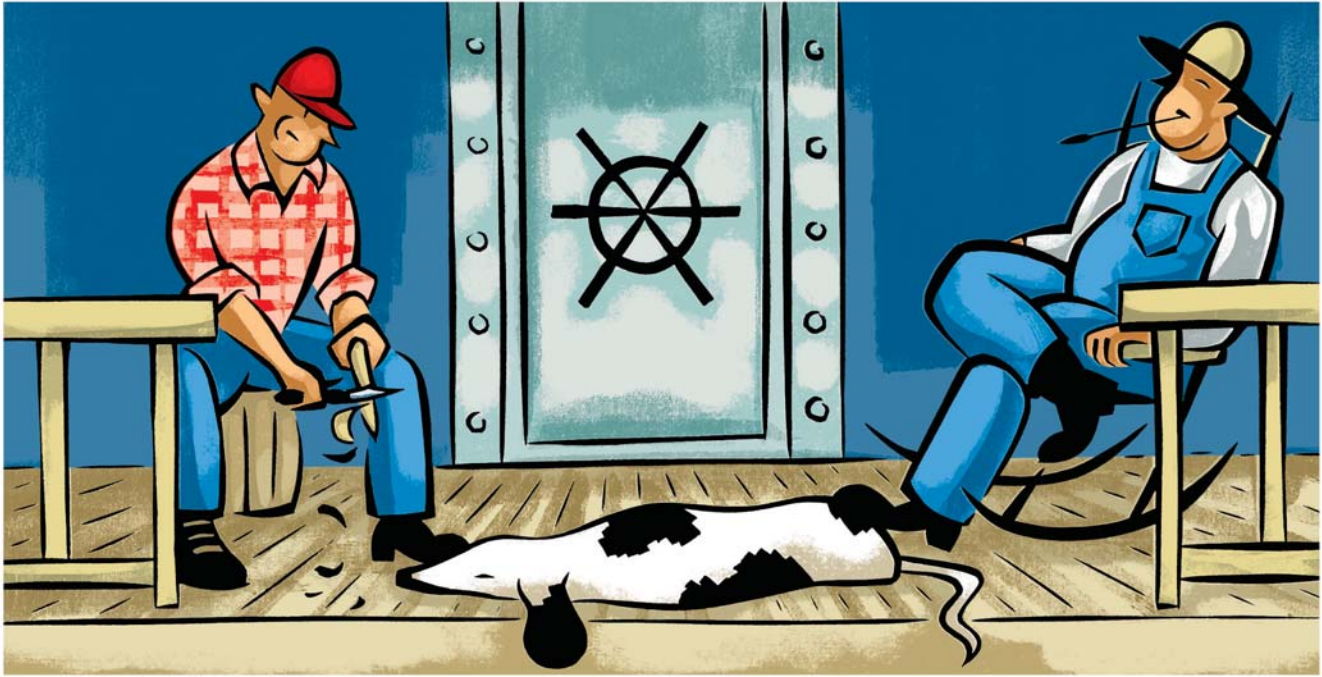
The newest bank and credit union branches have been carefully designed to evoke that wow feeling. Lobbies are homey and stocked with plush seating to encourage customers to hang out. Coffee bars are practically a design staple, subtly persuading customers to at least stick around long enough to finish a cup.

Meanwhile, teller windows are invariably situated way in the back so that customers are unlikely to reach them without spotting something else that attracts their attention on the way. And children's play areas and Internet-ready computer kiosks are common, disputing the notion that the whole point of banking is to get in and out as fast as possible.<sup>8</sup>

The poster organization for the retail look is probably Washington Mutual, one of the country's largest savings institutions with some 2,000 branches—whoops, "stores"—nationwide.

WaMu, as it's affectionately known in the industry, borrowed a page from Starbucks and Nordstrom—two other Seattle-based retailers—in creating a retail look all its own. WaMu even branded the concept, calling its branches "Occasio" stores, from the Latin word meaning "favorable opportunity."

In Occasio stores, a khaki-clad concierge—no suits, please—greets customers and escorts them to the appropriate service area. Traditional teller windows are gone, replaced by teller "towers"



that automatically dispense cash and allow easier interaction with customers. There's also a children's play area to keep kids busy while their parents "shop" and a retail store equipped with books, software, and toys related to personal finance.<sup>9</sup>

### Expansion strategies

For Washington Mutual, the Occasio concept gives customers a sense of familiarity in much the same way that national retailers, restaurants, and hotel chains aim to provide a common shopping, dining, or lodging experience. Bank of America takes a similar approach, positioning its branches as familiar havens for consumers seeking financial products and advice.<sup>10</sup>

But the unified look is hardly an industry standard. Many banks prefer to tailor individual branches to the demographic profile of the communities they serve. Under this philosophy, a branch situated in a Hispanic community might look markedly different from one serving African-Americans or Asians. Is your neighborhood a magnet for hip professionals driving BMWs? An on-site Starbucks might be appreciated. Are you located in a retirement destination? Extra teller windows might make it possible to devote more personal attention to each transaction.

The International Bank of Miami subscribes to this strategy, incorporating Latin architectural references in its headquarters to appeal to its affluent clientele, many of whom hail from Latin America. Designers working with the bank created residential-looking "customer contact zones," where bankers entertain clients—rather than sit across a desk from them—in deference to the culture's preference for cultivating friendships among business partners.<sup>11</sup>

Wells Fargo also began reconsidering branch aesthetics after a rash of mergers triggered by deregulation took it far afield from its California roots. Whereas the bank was once satisfied with one-size-fits-all consistency, it now favors a malleable look that can be changed easily to address demographic preferences.

"We're not reinventing the wheel each time out," says Gloria So, a vice president and market manager with Wells Fargo. "But we are trying to respond to the diversity of our local markets by tweaking things like signage, fabrics, colors, and artwork."<sup>12</sup>

Financial institutions seeking to expand their branch network must grapple with another consideration, too—speed. Once a bank or credit union decides to open a new branch, the faster it can do so, the faster it can begin claiming market share.

Many financial institutions now follow a rapid-deployment model for getting new branches up and running as quickly and economically as possible. For instance, North Carolina-based Wachovia Corporation, which has an aggressive expansion plan through 2010, calls its rapid-deployment furniture program "Bank in a Box."

Wachovia has standardized on three branch models: one when renovating and moving into an existing building, another for contemporary-looking new construction, and a third for traditional brick construction. Branches within all three models are virtually cookie-cutter, saving on design and building costs while sharply reducing the time it takes to open a new branch.<sup>13</sup>

### Building a brand

The shift toward a retail look in many bank branches has been accompanied by a parallel trend—a greater emphasis on using the work environment to communicate brand identity. For years, most banks gave little thought to the unavoidable link between physical space and brand. They tended to view their real estate holdings as a commodity, even though most of those holdings are customer facing and can't help making some impression on visitors.

Consequently, the standard "teller line here, platform area there" layout became de rigeur from bank to bank, whispering the message that we're responsible, secure—and pretty much the same as everyone else. Today, however, many banks are inclined to ignore that model, preferring to create unique environments that scream, "Hey, pay attention. We're different."

"Let's face it, banking is a pretty straightforward business," says Ned Compton, vice president of sales for the design/build firm DEI. "There's little product differentiation to speak of, and one bank's money is the same color as the bank's down the street. So what can financial institutions do to set themselves apart? Establishing a distinct retail brand image and then using the physical environment to enhance it is a good place to start."<sup>14</sup>

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Examples? Consider these DEI projects: At Your Neighbourhood Credit Union in Windsor, Ontario, the theme of community is captured in an interior that resembles a streetscape, complete with street signs promoting various products and services. At Truliant Federal Credit Union in Clemmons, North Carolina, the theme is Southern casual, achieved in part via lazy rocking chairs on a long front porch, where members are invited to sit a spell.

Then there's Home City Federal Savings Bank in Springfield, Ohio, where waiting rooms look just like residential living rooms (complete with fireplaces), making customers feel, well, right at home. And at River Valley Financial Bank in Madison, Indiana, customers meander along a blue tile walkway lined with smokestacks, almost as if they were floating down the nearby Ohio River.

### International outsourcing

While deregulation is spurring the industry's sales culture and prompting new expectations concerning how branches should look and operate, back-office jobs—those with little or no direct customer contact—are being buffeted by a trend taking place overseas: international outsourcing.

Outsourcing, in fact, is shaping the industry's employment outlook every bit as much as consolidation. In both cases, the rationale is much the same: to save money. So, too, is the end result: fewer financial jobs in the United States. Citigroup and JPMorgan Chase are among the many banking behemoths with aggressive outsourcing strategies.

Depending on geographic location, international outsourcing can generate combined labor and real estate savings of up to 50 percent annually. Labor costs account for the bulk of those savings. For example, technically proficient Indian workers who speak fluent English earn anywhere between one-tenth and one-fourth of similarly trained domestic employees. Among other countries courting outsourcing business are the Philippines, Malaysia, Morocco, and Tunisia.

Another compelling benefit of outsourcing is that it often improves service and decreases errors. Reason: Wages in outsource countries are so low that financial institutions can afford to hire better people than they could at home. GE Capital, for example, has hundreds of employees with Ph.D.s on its payroll in India. Overseas workers who

were under-employed much of their lives also are less likely to leave their new jobs, which minimizes turnover and reduces training costs.<sup>15</sup>

So add it all up: Back-office jobs are heading overseas. Financial institutions are consolidating as their branch networks are booming. And the corner bank is starting to look and act more like the corner store. Taken together, these trends paint an unmistakable picture of an industry that's reinventing itself—one that's transforming its employees, products, and work environment to cope with new competitive pressures and capitalize on new opportunities.

### Notes

- 1 Federal Deposit Insurance Corporation, "Number of Institutions, Branches and Total Offices: FDIC-Insured Commercial Banks, United States and Other Areas," <http://www2.fdic.gov/hsob/hsobRpt.asp>.
- 2 *Ibid.*
- 3 Peter Miscovich, PricewaterhouseCoopers, telephone interview, October 29, 2004.
- 4 U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov>.
- 5 Alenka Grealish, "A Look Into Banking Trends for 2004," *FinanceTech* (December 16, 2003).
- 6 DEI Incorporated website, <http://www.dei-corp.com>.
- 7 Cynthia Grow, DEI Incorporated, telephone interview, October 26, 2004.
- 8 Plunkett Research, *Financial Services Industry Almanac 2004*.
- 9 Eileen Brill Wagner, "Washington Mutual Rolls Out Occasio Concept in Phoenix Area," *Puget Sound Business Journal* (March 21, 2001).
- 10 Timothy L. O'Brien, "Bank of America, a Believer in Branches, Opens in New York," *The New York Times* (September 24, 2004).
- 11 Jean Nayar, "Personal Banking," *Contract* (May 1, 2004).
- 12 Gloria So, Wells Fargo, telephone interview, November 15, 2004.
- 13 Sherry Mason Brown, Herman Miller, telephone interview, November 2, 2004.
- 14 Ned Compton, DEI Incorporated, telephone interview, October 29, 2004.
- 15 Peter J. Miscovich and Ron Collard, "New and Non-Traditional Survival Strategies for Financial Services Firms," *PricewaterhouseCoopers The Journal* (August 2003).