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RAISING THE STAKES

Improving Branch Counter Productivity

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INTRODUCTION

Retail banks today have re-focused attention on branch network profitability, both through higher sales as well as through cost reduction through streamlining and process automation/ centralization. But a renewed emphasis on branch efficiency raises a challenge: how to raise productivity without adversely impacting the consumer experience.

ISG analyses of branch operations[1] reveal a significant efficiency gap between top quartile performers and those within a comparative Reference Group Mean (RGM), with the former achieving an average of 30 percent lower staffing levels per branch. More specifically, in terms of counter service staff, top performers employ 2.1 fewer full-time equivalents (FTEs) per branch than the RGM. The financial implications: an average-performing bank spends $60 million more per year on personnel to handle basic over-the-counter transaction processing.

Customer satisfaction and customer retention actually increase as a direct result of efficiency initiatives, as counter waiting time is reduced and more staff are available for dedicated customer advice.

We also find that certain banks have successfully introduced branch efficiency initiatives. Meanwhile, significant opportunities exist elsewhere – notably in North America – to leverage technology to reduce transaction processing costs. The findings also suggest that customer satisfaction and customer retention actually increase as a direct result of efficiency initiatives, as counter waiting time is reduced and more staff are available for dedicated customer advice.

Three specific areas of potential improvement are addressed:

1. Reduced task times for processing counter transactions
2. Increased service staff utilization
3. Increased self-service options for basic transactions such as cash/check deposits and bill payments

This white paper examines each of these areas in more detail, focusing on the successes of top performers and potential benefits to be achieved.

[1]Findings based on eight in-depth analyses of branch operations in banks in Europe and North America over the last 18 months and 32 broader studies of retail banks worldwide.

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Counter automation includes Teller Assistance Units (TAUS's), check Optical Character Recognition (OCR) imaging, and Card Swipe machines.

Deployment of TAU's with cash recycling capability typically produces a 10 percent average reduction in branch cash management costs and a 20-second reduction in average transaction processing times. The business case for TAU deployment combines cash flow profiling, labor arbitrage, and unit cost reduction (including branch furniture integration). Although few banks have deployed TAUs across their full branch estate, average TAU penetration now stands at 20 per 100 branches, with recyclers accounting for almost one-third of the total installed base – and forecast to be two-thirds by 2013.

While check truncation is still in its infancy globally, OCR check swipe technology at the counter has been successfully deployed by a number of European banks, resulting in a significant reduction in clearing errors and a 15-second reduction in average transaction task times.

Other counter technologies that have enhanced counter transaction efficiency include card-swipe units that allow account details to be automatically downloaded onto teller screens. This technology – extensively used in Canada – is less prevalent in Europe and the US, where many banks still use pre-paid counter slips. ISG analyses show that card swipe technology can further reduce task times by 10 to 15 seconds.

SERVICE STAFF UTILIZATION

Staff utilization – a second major influence on counter productivity – can be measured by multiplying task times with task volumes and dividing by total service FTE office time.

Top-performing banks aim for utilization levels of 65 percent to 75 percent of service office time. A figure below 65 percent indicates over-staffing and a figure above 75 percent suggests under-staffing.

ISG found a surprising degree of variance in staff utilization, with levels ranging from a low of 45 percent to a high of 83 percent. Banks with utilization rates higher than 75 percent tend to have relatively lower levels of self-service technology, while banks with low utilization have a relatively high share of Customer Service Representative (CSR) time absorbed by non-transaction activities such as branch administration.

A key driver of poor utilization levels is limitations on the CSR's ability to service applications; specifically, certain routine tasks necessitate form filling and passing to the back office. Another driver, surprisingly, is ineffective capacity planning. Although the majority of participant banks use forecasting software, inaccurate data input into the planning systems is a common problem.

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Global best practice banks have achieved significant efficiency gains by improving task times of non-financial (service) transactions. The extent of the opportunity is largely a function of the integration of the CRM applications with the CSR service platform. ISG found that banks that haven't widely deployed automated terminals have a far higher share of quality-related service enquiries around bill payments. Other typical service requests, such as statements and mailing changes, also account for a relatively larger share of enquiries. This is in part due to functionality limitations of the ABM's, and in part to the persisting propensity to conduct these affairs face-to-face. With customer satisfaction highly correlated to first point-of-contact resolution, this is a key, if often overlooked, opportunity for improvement.

BRANCH SELF-SERVICE LEVELS

Although the annual cash and check transaction rate has been declining by about 5 percent globally, and counter transactions are migrating in growing numbers to self-service channels such as Internet Banking and Intelligent Deposit Machines, the number of counter transactions per branch has remained relatively stable.

A number of reasons account for this:

1. The working populations of industrial nations have expanded in the last decade, resulting in a higher percentage of the population with bank accounts.

2. Increasing sophistication of customers and reductions in the "unbanked" sector within leading economies has further fueled growth in checking accounts.

3. Volumes of domestic wire transactions are increasing by 4 percent a year, and foreign wires by 9 percent a year across Europe and North America; due to their complexity, these transactions have yet to migrate to branch self-service machines.

With the expansion of new self-service technologies, along with pre-paid cards replacing cash transactions, ISG clients are targeting an annual reduction in counter transactions of about 6 percent from 2010 onwards.

Close to 60 percent of ISG banking clients either have implemented or plan to implement branch self-service strategies. This percentage is likely to increase over the next five years.

Banks pursuing aggressive self-service strategies aim to migrate 40 percent to 60 percent of cash and check counter transactions to self-service machines. Typically, these banks are scaling back investments in teller technologies and concentrating on rolling-out multi-functional ABM machines with intelligent deposit and cash recycling functionality.

For global top quartile performers, self-service transactions currently represent 70 percent to 80 percent of all branch transactions, reflecting a steady increase over the past decade. A compelling case for continuing self-service migration can be made, as the cost of processing a counter transaction is around five times that of the self-service equivalent.

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The growth of self-service technology has been led by investment in the Automated Deposit Terminal (ADT's). These are growing faster even than TAU's, although again a disparity across geography exists, between extensive deployment in the US and an absence in Canada. Globally, the installed base for ADTs has more than quadrupled to over 100,000 units between 2003 and 2008, and ADT's currently account for 95 percent of all new deposit terminal installations replacing envelope-accepting units. Forecasts call for ADT's to exceed 500,000 by 2018.

Banks pursuing aggressive self-service strategies have successfully migrated between 40 percent to 60 percent of their cash and check counter transactions to self-service machines in the branch. Combined with the replacement of manual "envelope deposit" processing through the ABM channel, this has produced annual efficiency and productivity benefits estimated at around $60 million per bank, with leading performers achieving savings in excess of $100 million (or $100,000 per branch) .

These savings have been achieved through:

1. Elimination of teller keying effort
2. Reduction in cash administration costs, particularly with respect to cash balancing
3. Reduced volume of bulk cash deliveries
4. Lower fraud levels associated with envelopes

The first movers to take advantage of these technology innovations developed business cases based on assumptions around process and customer behavior. With such technologies now deployed for three years or more, those assumptions can be both reviewed and indeed revised.

For banks involved in recent analyses, ISG identified an additional average annual cost savings of $15 million for current ADT deployers to achieve global best practice levels. Moreover, ISG found that while the "hard" volume-related elements of the business case for earlier ADT/self service investments are mostly justified, some of the "softer" and less quantifiable benefits of the investments have in fact contributed significantly to the performance uplift. For example, ADT migration has enhanced customer service through a reduction in error rates and improved convenience.

SUMMARY

ISG analyses of global branch office operations highlight the potential opportunities available to many retail banks to streamline processes and improve branch productivity.

Whereas previously the challenge had been to justify technology investment against uncertain benefits, now the case is much clearer: Those that fail to evaluate and upgrade their systems in the context of their specific organizational objectives stand to lose a great deal more than the existing $60 million gap.

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Roger brings extensive business process experience in both the retail banking and life and pensions sectors after consulting for decades with some of the most-well-recognized global banks. His knowledge of lending and customer service operations, cross-border payment processing, ATM management and pensions administration extends to experience in the U.K. public sector, where he focused on diagnostic and transformation projects. Roger holds a bachelor's degree in economics from Leeds University and a master's degree in computing from North London University. His articles on retail banking have been widely published in the South African press, and he has written several white papers on front- and back-office performance improvement.

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