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Branch Transformation: Knocking the Brick off the Mortar

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INTRODUCTION

Now that consumers increasingly turn to digital for their everyday banking channels, financial institutions (FIs) are being forced to revisit the role the branch will play in the future. Specifically, FIs have to create digital capabilities that provide better insight and advice than consumers get in a branch and must determine how to complement the digital experience by focusing on the right branch interactions that drive value.

This report will explore how FIs are approaching their branch transformation strategy, how they are dealing with the changing demographics of their customer portfolio, the types of branch formats that are being considered and why, and what bank executives should think about as they shape their strategies.

METHODOLOGY

This Impact Note contains analysis from 23 in-depth Aite Group interviews with senior executives at banks, vendors, and consulting firms from various parts of the world who are responsible for the branch experience and who are refining their branch strategy or are considering optimizing the branch experience within the next couple of years. Interviews for this study were conducted from September to December 2018. Executives contributing to the research have extensive business or IT responsibilities and titles that include chief executive officer, chief management officer, executive vice president, vice president, senior vice president, and director.

THE MARKET

The reliance on the branch as it exists today is changing. Consumers are using the branch less frequently. The branch is transitioning from being a place where consumers conduct all their financial transactions to a place consumers use for advice and guidance. As a result, the activities customers perform in a branch are changing, but the types of activities supported in a branch, the physical layout, and the technology used in many branches have not evolved at the same pace.

Customer expectations for how they interact with FIs are being shaped by the retail sector. Customers expect the latest technology, seamless integration between the branch and digital channels, and multiple formats—both physical and digital—to connect with a banker. Some FIs are beginning to experiment with new physical formats, new technology, and new employee roles in a branch. At the same time, a number of other market pressures and trends are shaping how FIs are thinking about their branch strategy (Table A).

Table A: The Market

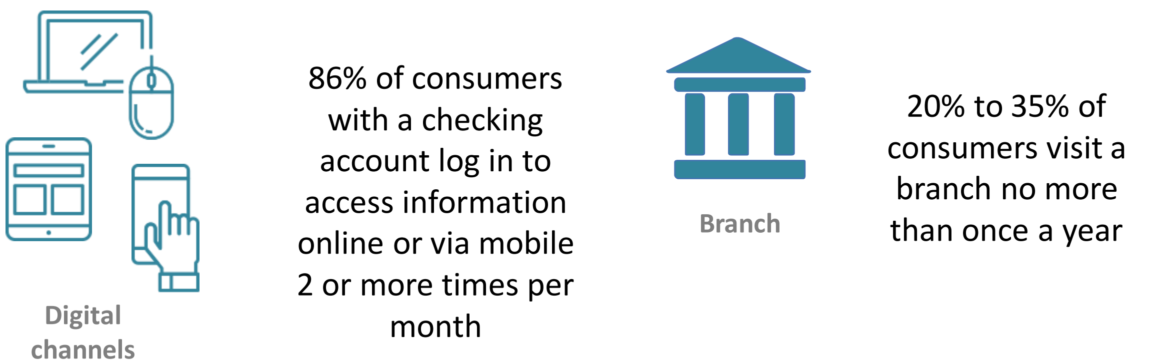
Market trends	Market implications
Customers are using digital as their everyday banking channel.	Traffic in the branches has been slowly and steadily declining, while digital banking penetration is increasing quickly and furiously.
Customer expectations for advice and service in physical distribution points are being shaped outside the banking industry.	Firms such as Apple and Microsoft are setting expectations for how they help customers learn about products, merchandise products, and resolve issues in store.
FIs recognize that product and price are not sustainable competitive differentiators.	FIs are viewing the customer experience as one of their main sources of competitive differentiation.
FIs have not been able to offer digital advice and guidance similar to or even better than the advice a customer receives in a branch.	Some of the main reasons consumers indicate they use a branch is for advice and guidance, and for resolving problems that they can't get help with in the digital channels.
Banking demographics are changing.	The age demographics in banking are changing. The older generations that have a higher reliance on the branch are aging out and being replaced by younger, more technology-savvy consumers who will be reaching the peak of their buying power.
The convergence of digital, big data, and artificial intelligence (AI) will create new ways to engage with consumers.	For the branch to transform, FIs will need to find new and meaningful ways to interact with consumers in a branch and in the digital channels. The convergence of technology will allow banks to be much more predictive and descriptive when they interact with consumers.

Source: Aite Group

BRANCH RELIANCE IS SHIFTING

It's common knowledge that branch traffic has been slowly and steadily declining. At the same time, more and more consumers are using the digital channels as their everyday banking channels (Figure 1). While the branch has lost its relevance in terms of being a place the majority of customers turn to for their everyday banking needs—e.g., checking balances, paying bills, and even depositing checks—customers still rely on the branch for more complex questions and issues. According to PNC, 80% of its customers report visiting a branch no more than once a year.[1] But PNC, along with many other FIs, believes that customers want access to a branch to help them with questions.

Figure 1: Difference Between Digital and Branch Traffic



Source: Aite Group

While the role of the branch has changed in customers' minds, most FIs still have full-service branches that support a wide variety of transactional activities as well as advise on products and services. Given the shift in banking activities to the digital channels and the shareholder mandate to reduce operating expenses, FIs are under pressure to transform the branch experience to one that can create more meaningful, value-added interactions. Many FIs are thinking about how to recreate the branch experience to focus on providing advice and guidance, and they are determining the right physical layout, technology, and staffing model or staff augmentation needed to support what consumers want and use a branch for today.

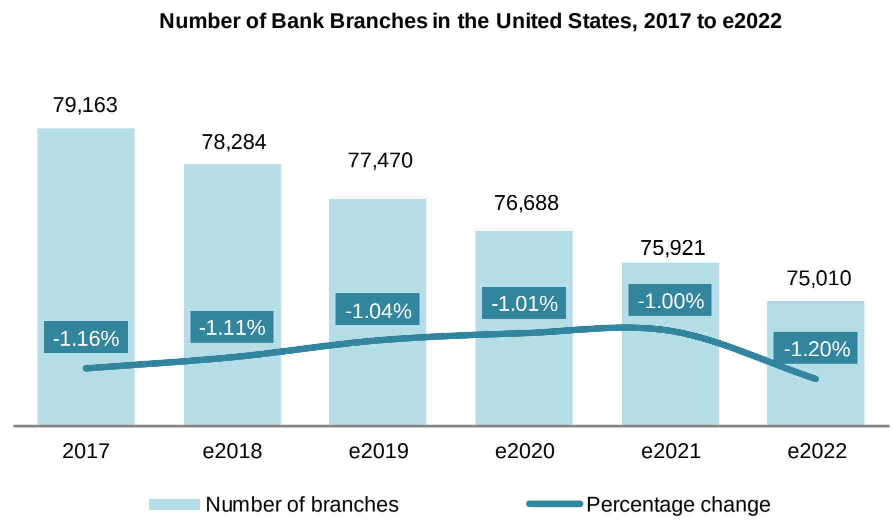
BRANCH STRATEGIES

One metric that the industry has been tracking to determine if the branch is on its death bed is the number of branches. Aite Group estimates the number of U.S. bank branches to drop from 78,284 in 2018 to 75,010 by 2022 (Figure 2). While this metric may have provided some indication of the number of branches that closed because they were unprofitable or not needed,

1. David Henry, "RPT-PNC Bank Moves Into New Cities With 'Light' Branches, Higher Rates," Reuters, October 1, 2018, accessed November 8, 2018, https://www.reuters.com/article/pnc-finl-svc-branches-digital/rpt-pnc-bank-moves-into-new-cities-with-light-branches-higher-rates-idUSL2N1WH0P0.

the industry is deploying a number of tactics that may deteriorate the usefulness of this metric as a way of determining if customers are still relying on branches.

Figure 2: U.S. Bank Branch Forecast



Source: Aite Group, Federal Deposit Insurance Corporation

Table B provides examples of the branch network strategies FIs are using and gives examples as to why they are selecting each approach.

Table B: Branch Transformation Strategies

Strategy	Strategy driver	Institution type	Key considerations
Adding more branches	Drive growth in brick-and-mortar channels to focus on reinforcing the community feel	Community banks, credit unions	This approach requires market research to find the right location to open new branches that will drive loan and deposit growth. And once they have proven success in a certain location, they may transition to a hub-and-spoke model and strategically open more branches in specific locations. In addition, some FIs are taking advantage of testing and learning with new branch concepts in certain areas and are then building out and trying that concept in other locations.
Closing branches	Focus on operational efficiency or a digital-first approach	National banks, regional banks, community banks, credit unions	Some FIs are focused on cutting costs and creating more efficiency. As a result, they are closing some branches that are not profitable.

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Strategy	Strategy driver	Institution type	Key considerations
Hybrid approach	Focus on identifying and closing low-performing branches and reopening new branches in different segment-based formats	National banks, regional banks	In Aite Group's interviews for this report, we heard most often that FIs are taking a hybrid approach to their branch network and are closing lower-performing branches and replacing them with new purpose-driven branches that perform specialized functions and support a location and/or specific customer demographic.
Digital-only brands and/or mobile apps	Focus on positioning digital as the only channel	Challenger banks, national banks, FIs that have a digital-only segment approach	Some FIs are also starting experiments to learn more about customer reliance on physical channels by creating a separate digital-only brand and/or mobile application that has no branch support. JPMorgan Chase has created its digital-only account, called Finn, and PNC has created a digital-only high-yield savings account. This approach creates an incentive for digitally savvy customers to diminish their reliance on a branch to have access to better products, services, and experiences.

Source: Aite Group

THE RISE OF PURPOSE-DRIVEN BRANCHES

If FIs are going to be able to drive profitable branch experiences, they have to be able to understand who is still going into branches, why they are going into branches, and what unmet need the branch is not delivering on, and then build experiences around those needs.

Some branches are busy because they are located in areas with a lot of businesses and a lot of small-business activity; other branches have a declining transactional volume but a higher volume of account-opening and problem-resolution inquiries. Some branches may be a mix of both. Some of the activities that occur in a branch would be better served in a digital channel with a branch network that supports different segments, purposes, and goals. For FIs to understand what type of branch they should build, in what location, and for what purpose, they need to do some customer segmentation and then select a branch format that will allow them to serve those customers' needs. Firms such as Pitney Bowes offer solutions that can help FIs determine whether to retain, relocate, or consolidate existing branch locations through tools that allow banking executives to analyze customer data and site characteristics that impact branch network performance.

There are many different branch formats, along with different technologies that can support them. There are four main branch formats (Table C), but many variations of these formats could have slightly different sizes, layouts, staffing models, technologies, and purposes.

Table C: Different Branch Formats

Branch format	Purpose	Staffing model	Technology approach	Layout features
Pop-up	Focused on providing access to ATM and self-service capabilities while building brand awareness	Not staffed with physical bankers or advisors; may have access to a virtual teller or a digital human—an animated human—through video conferencing	Self-service capabilities through ATM	Small space that is technology-driven to give customer access to everyday banking activities
Full-service	Focused on providing a full spectrum of products and services to retail and small-business customers	Staffed with bankers and advisors	Self-service capabilities through ATM and/or kiosk	Meeting space to meet with bankers or use as a shared space

Branch format	Purpose	Staffing model	Technology approach	Layout features
Segment purpose	Focused on providing specialized products and services to targeted demographics	Limited staff of specialized bankers and advisors	Self-service capabilities through ATM and/or kiosk	Has specialized products and services with physical format or purpose selected to appeal to the segment the FI wants to attract (e.g., café, business center, branch with virtual teller access)
Flagship	Promote the FI as an innovator while also building awareness of the brand and positioning it as a technology leader in its space	Staffed with employees who have more experience with emerging technologies and can act as brand ambassadors	Technology is used to showcase products and services	Locations strategically selected to draw attention and attract customers; has specialized staff with a unique blend of technology that reinforces the brand and may or may not have a specialized meeting or networking space

Source: Aite Group

NEW BRANCH FORMATS IN ACTION

Branch placement is driven by demographics and forecasted branch traffic, and is based on what type of activities a customer does in a branch. With formats such as pop-up locations, segment branches, and even flagship branches, banking executives have less historical data that they can use to determine the best placement of a branch, the right physical format, the right technology to use, and the right staffing model. To find the right formula, FIs will have to be willing to test and learn. The good news is some of the smaller formats are less costly, require less staff, and use more technology that makes it easier to test, learn, and rip and replace or relocate than it was in the past. A lot of experimentation is going on in the financial services industry. Table D provides examples of branch formats, technology, and staffing models that are being used in the industry.

Table D: Branch Innovation

Bank	Innovations
ATB Financial	ABT Financial added Pepper, a robot, to a branch. Pepper can interact with customers through voice and a touchscreen tablet, provide information on products and services, improve customers' financial literacy, and even request a selfie, and customers can request to see Pepper's dance moves.
Bank of America	In 2015, Bank of America started rolling out video teller machines (Figure 3). And video is also a key component of its delivery strategy for its virtual centers. Its virtual centers have cardless-enabled ATMs and private rooms that can be accessed with a smartphone or with a debit or credit card. The rooms have a screen that can be used to connect with a banker, and if the banker needs to bring in a specialist to help the customer, he or she can do so using a split screen. During the interaction, the banker or specialist can share documents and capture signatures—doing everything that could be done in person.
Capital One	Capital One continues to open cafes that allow consumers to hang out, access banking services, get help with financial questions, and recharge their devices (Figure 4).
Chase	Chase has launched a new-generation branch that has an "access bar," which has a big-screen TV and device-charging stations, and is complemented with banker assistance. In addition, Chase is focusing on appealing to consumers who want a digital-only bank by targeting digitally savvy consumers with its Finn application (Figure 5).
China Construction Bank	China Construction Bank has created a human-free branch. Xiao Long, the branch's robot, answers basic customer questions, accepts bank cards, and checks account balances (she comes complete with a PIN pad). After customers chat with Xiao Long, their identities are validated with their faces, and ID cards are scanned. ATMs can help customers open accounts and transfer money. And they have a video link, should customers want to talk to a human (Figure 6).
DBS	DBS' "cafe and branch" at Plaza Singapura features video teller machines, a virtual reality center for retirement planning, and a humanoid robot, Pepper (Figure 7).
Halifax	Halifax is implementing smaller branches, and some branches are theme-based and provide consumers guidance and advice on home lending, travel, saving for kids' education, and cafes where branches can host free events and financial education seminars (Figure 8).
HSBC	HSBC has added a robot, named Pepper, to its main branch on Fifth Avenue in Manhattan. Pepper will perform a variety of basic tasks, such as providing visitors with information about financial products and services, educating customers on digital banking technology, and explaining how to get assistance or directing customers to staff members who can help (Figure 9).

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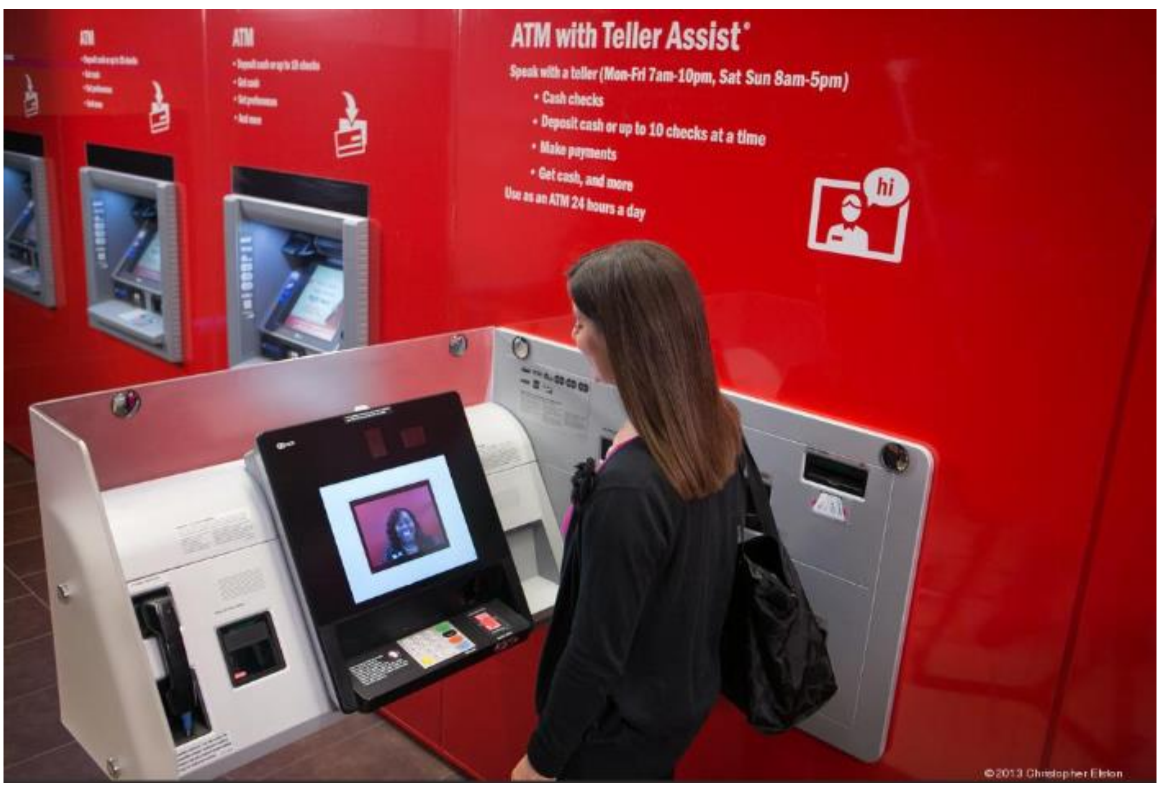
Bank	Innovations
PNC	PNC is using a new branch strategy as it enters the Dallas and Kansas City markets and will deploy an “ultra-light” set of “solutions centers” in each city. The goal for the ultra-light format is to place an office within a 30-minute drive of 80% of the population in each city. In addition, PNC has created a digital-only savings accounts with high rates to attract customers who would be willing to trade higher rates for less branch access.
Royal Bank of Canada	RBC allows small-business clients to access the bank or their banker directly through video banking on their computer, tablet, or mobile device (Figure 10).
Umpqua	Umpqua is focused on giving banking more of a community feel. As a result, its branches act as a community centers, where people can hang out or use the meeting rooms for their own business tasks, or even for yoga classes (Figure 11).
Union Bank of the Philippines	Union Bank of the Philippines has installed a branch where all transactions are done through self-service machines or tablets. The branch has comfortable, brightly colored couches, refreshments, and access to technology and gadgets for banking transactions—terminals, tablets, touchscreen TVs, and virtual reality goggles.

Source: Aite Group

Figure 3: Bank of America Video Teller Machine



Source: Bank of America, Christopher Elston

Figure 4: Capital One Cafe

Source: Capital One

Figure 5: Chase Next-Generation Branch

Source: Chase

Figure 6: China Construction Bank Human Free Branch

Source: China Construction Bank, The Guardian

Figure 7: DBS Cafe and Branch

Source: DBS

Figure 8: Halifax Flagship Branch

Source: Halifax

Figure 9: HSBC's Pepper

Source: HSBC

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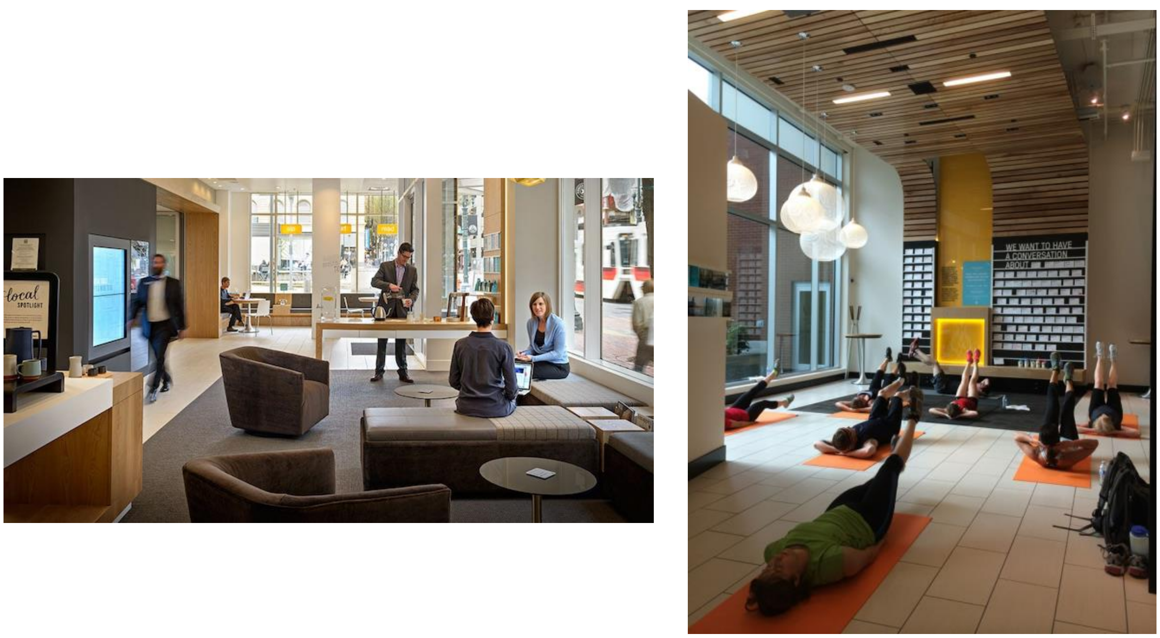
Figure 10: Royal Bank of Canada Video Banking

Source: Royal Bank of Canada

Figure 11: Umpqua Branch



Source: Umpqua, Tearsheet

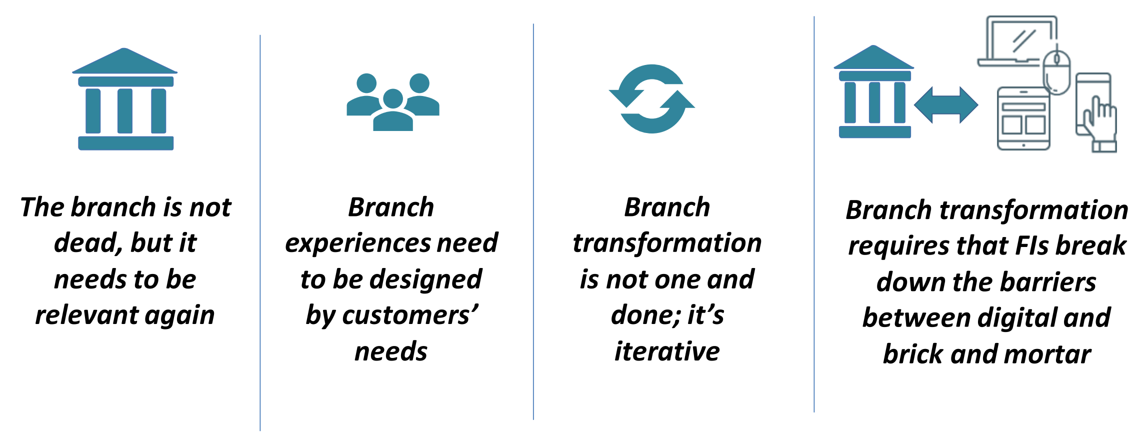
FROM MODERNIZATION TO TRANSFORMATION

Aite Group defines branch transformation as “transforming the banking experience from an experience that relies heavily on branches to one that reinvents itself as a complement to digital channels.” Over time, as digital channels get better at helping consumers with all of their financial activities from transactions to advice and guidance, the reliance on the branch will lessen.

In the interviews conducted for this report, Aite Group asked banking and technology executives what branch transformation means to them. Figure 12 highlights the major themes of the interviews. Although the answers Aite Group received are all a little different in flavor, below is a list of some common themes:

- **The branch is not dead, but it does need to be relevant again.** People used to believe the branch was dead. In the interviews, banking and technology executives all agreed that the branch will always exist in some way, shape, or form.
- **Branch experiences need to be designed by what the customer needs.** The transformative part of the branch is to start thinking of the branch experience from a user perspective and not a branch perspective. That means that FIs will need to stop thinking about how they should best serve customers and find out what consumers want and how they want it.
- **Branch transformation is not one and done.** It’s an iterative process that will require an FI to continue to look at the needs of their customers and evolve the branch network to address those needs.
- **Branch transformation will require the FIs to break down barriers between digital and brick-and-mortar channels**. That means customers should be able to interact in a digital environment and seamlessly pick up and complete activities in any channel they choose, whether that is through video, through a digital human, or in a branch.

Figure 12: Branch Transformation Themes



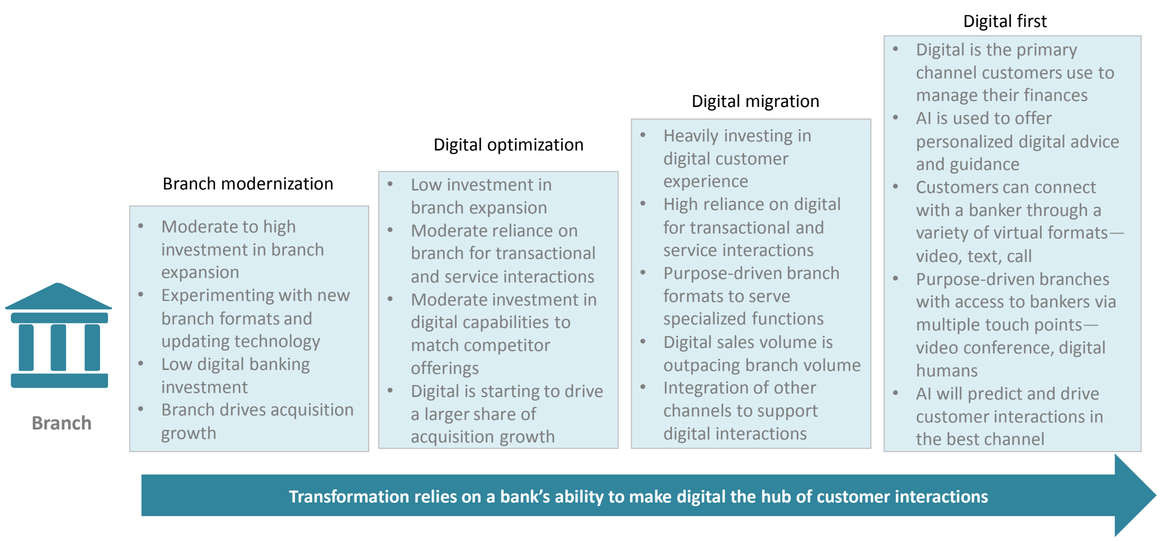
Source: Aite Group

THE PATH TO BRANCH TRANSFORMATION

For the role of the branch to transform, the branch must move toward focusing on activities that drive customer value. Many FIs have given their branch management teams key metrics and performance-based incentives to move low-value transactions, such as depositing checks, to the digital channels.[2] That means branches will need to migrate the non-value-added activities from the branch to the digital channels. While FIs have been trying to migrate customers to digital channels over the last few years, for some FIs the digital experience is still suboptimal, and that has resulted in many customers still turning to the branch because the experience is better and often less complex. And in some cases, FIs have not built digital application experiences—online and mobile—for all of their products.

For customers to truly migrate to the digital channels, FIs must move toward a digital-first experience (Figure 13). And that means FIs will need to balance their investment in branch expansion with improving the digital experience. FIs need to start thinking about where the customer will be in a few years and then build out what is needed with an understanding of how that will support any future capabilities that need to be built.

Figure 13: The Path to Branch Transformation Requires a Digital-First Approach



Source: Aite Group

Each phase of branch transformation can be described as follows:

- **Modernization:** Most of the FI industry seems to be in the phase of modernization. Nothing truly transformative has occurred, and most of the branch efforts are focused on refreshing the look and feel of the branch with new physical layouts and new technology. While a few purpose-driven branches have popped up with a

2. See Aite Group's report *Instant Issuance: Driving Card Use and Self-Service Channels*, September 2016.

dedicated focus on certain segments, most FIs' branch networks are still run by a traditional branch system.

- **Digital optimization:** At this phase, FIs are making an active push to optimize their digital experience in areas in which they fall short of addressing the common low-value activities that are still performed in a branch. This phase also means that FIs are focused on increasing digital banking penetration, are starting to digitize their branch processes, and are using digital to complement more complex customer journeys, such as opening mortgage accounts.
- **Digital migration:** In this phase, FIs start putting clicks before bricks. They have a large percentage of active digital banking users, are actively implementing purpose-driven branches, have a large percentage of their budget dedicated to digital channels, and view the branch as a complementary channel.
- **Digital first:** When FIs get to the digital-first phase, they will be at a point in which the role of the branch is transformed. In this phase, digital has become the primary channel consumers use to manage their finances. AI will play a role in predicting consumer needs, giving real-time digital advice, and allowing them to connect with a banker any way they want. Digital will become a facilitator of customer communication and will merge the branch and digital experience—knocking the bricks off the mortar.

KNOCKING THE BRICK OFF THE MORTAR

While the industry is holding on to the nostalgia that customers want face-to-face interaction for advice and guidance, one could argue that many customers only trust this face-to-face interaction because they have no alternative. Specifically, FIs have yet to figure out how to provide better guidance and advice in the digital channels than in a branch. While some stand behind the notion that customers only trust humans, once digital capabilities are able to deliver accurate, real-time advice and guidance that help them meet their financial goals, the notion that this has to happen with a human will lessen over time.

When Aite Group asked one bank executive about the future of the branch, he stated, “The branches will focus on advice and guidance with the underlying focus on automation. There will be an active focus on migrating customers to self-service with the option to interact with a banker how they want, when they want, and where they want. It will be about giving customers a choice.”

In the future, the digital channels will be the facilitator of the vast majority of bank interactions with a customer. Everyday banking transactions will continue to be managed by the digital channels, but what will be different is that digital will play a key role in helping customers meet their financial goals and improve their overall financial wellness. The banking experience will be much more personalized, and through the use of data, analytics, and digital channels, it will begin predicting when customers will have a need, making them aware of the need, providing them insight on the situation, giving them advice, and driving them to the right call to action. The right call to action may not always be going into a branch; it could be using video conferencing to connect with a banker or using a digital human to walk them through the mortgage process, or it could be an experience that we have not even imagined yet. One executive describes the branch experience in the future: “When consumers walk into a branch, we should know who they are [and] what their problem is, and have a resolution ready for them.”

In order for digital channels to be able to deliver real-time personalized financial advice, banks will have to evolve the personal financial management tools they have today to be able to help customers improve their financial wellness. One bank executive states:

> There is a need for financial wellness centers. Millennials have a large amount of debt and [are] not sure how to manage it. FIs can step in and help with financial education through seminars or being able to go into a branch and understand how to use products and services. There is a need to predict customer needs, provide them with nudging suggestions, automate processes for them, and even provide them access to an advisor to help them with more complex needs.

Many FIs, such as KeyBank, are making financial wellness part of their customer engagement strategy.

As FIs move from a brick-and-mortar strategy to a digital-first approach, technology will continue to evolve and customer expectations will shift. As their financial needs expand, FIs must continue to evaluate the role of the branch. And FIs need to design the banking experience in a way that serves customers rather than serving customers in the way the bank thinks they should be served.

CONSIDERATIONS FOR A DIGITAL-FIRST APPROACH

As FIs begin to develop their branch transformation strategy, they should consider a number of factors. While part of the exercise is figuring out who bank executives want to be to their customers and creating a value proposition around that, Table E provides a few things that should be considered in the strategy.

Table E: Digital-First Approach Considerations

Consideration	Why it matters
Omnichannel	For years, FIs have said that omnichannel is important, and they have to deliver on allowing a customer to seamlessly move from channel to channel. Yet little has been done to allow a customer to do so. Omnichannel will be more important than ever if FIs want to be able to allow customers to connect when they want, how they want, and where they want.
Common platform and common experiences	For omnichannel to come to fruition, FIs need to have a common set of platforms and experiences. Today, customers use digital channels while bankers are still using archaic greenscreen systems that are built on antiquated business processes. For the role of the branch to transform, digital and branches must come together to create a common set of systems and processes.
Customer choice	The branch will not go away, and as FIs increasingly migrate to digital channels, they will have to provide customer choices on how they'd like to connect with bankers. Short term, that may mean more emphasis on face-to-face physical meetings, and long term, it may mean more virtual options.
Financial wellness	In 2017, three-quarters of consumers between the ages of 22 and 49 years old indicated they were interested in using a virtual financial wellness coach to help them improve their financial health. For FIs to be able to migrate customers from branches to digital channels, they have to be able to provide customers with proactive, real-time advice and guidance that helps consumers meet their financial goals.
Understand your metrics	It is always surprising to hear how many FIs do not understand what customers are doing in their branches and why, or—more importantly—how effective they are at allowing customers to do those same activities in a digital environment. For a branch to create a clear path to branch transformation, it needs to understand its performance and the relationship between its digital effectiveness and how that impacts branch traffic.
Success metrics for new branch formats	Since some of the branch formats that FIs will deploy are new, they will have to test location, format, and technology with different goals in mind. Bank executives must figure out what customer segment will use the format and what they expect customers to do in the branch, measure results, and use the results to fuel the same format or a better format.

Consideration	Why it matters
Looking at other industries for inspiration	Since some branch formats and technologies have not been used in the FI industry, it is important for banking executives to look outside the industry to help shape what they should do. Firms outside the FI industry are pushing the boundaries and are testing physical and digital experiences. FIs will need to do the same—learn, refine, and build toward an experience the customer expects.
Security	In the past, one of the main objections that FIs have to trying something new is security. While the debate has been whether something can or can't be done based on the security risk, this can no longer be a reason. Bank executives will have to lead the discussion with the need and figure out a way to address the security risk.

Source: Aite Group

AI WILL TRANSFORM THE ENTIRE BANKING EXPERIENCE

AI is one technology that has broad benefits. AI is a term that is used to encompass various forms of computer science, such as natural language processing, machine learning, and robotic process automation. In the future, Aite Group expects AI to play a key role in transforming the branch experience by automating business processing, helping validate a customer identity using biometrics, and predicting customer needs. Near term, AI will be focused on compiling information about a customer to help bankers assist clients with the next-best action or product. Bank executives believe that AI will be instrumental in bringing the right information to the forefront at the right time so they know how to advise customers. In the long term, AI could be used in the following ways:

- **To drive financial advice:** FIs can use what they know about where they spend money, how they spend money, and their financial goals to provide real-time proactive advice that helps consumers meet their financial goals. And, if needed, they can prompt the customer to speak to a banker in a branch or virtually.
- **To manage branch operations:** One area that banking executives think AI can help manage is the branch operation, from identifying potential technology issues and quickly troubleshooting them to forecasting branch traffic.
- **For customer identification and authentication:** One major pain point in the branch today is authenticating existing customers and validating customer identity. Executives believe AI can play a role in reducing application fraud and account takeover.
- **Helping guide junior employees on the process and procedure:** A banker bot can help educate junior employees on the proper procedure, give them tips on how to manage an interaction, and remind employees to follow up with a customer.

BRANCH TRANSFORMATION CHECKLIST

As banking executives start their branch transformation journey, they should keep the following in mind with the understanding that branch transformation is ongoing in that they should be prepared to revisit this list of questions to make sure they are still meeting rising customer expectations (Table F).

Table F: Branch Transformation Checklist

Task	Consideration
Strategic objective	The decision of more branches, less branches, smaller branches, or more specialized branches needs to be addressed. It is important that FIs understand their value proposition for their branch experience. How do you want to show up to your customers, what value do you want to add, and what level of human support matches your brand and your value proposition?
Customer demographics	Purpose-driven branches require that banks understand their customer demographic and what needs they are trying to solve for that demographic. From there, banks can select the right branch format for customers, recognizing that geography and culture have a significant impact in the branch format, technology, and staffing model (human versus digital) used.
Digital readiness	For digital laggards, it will be hard to transform the role of the branch. In order to move transactional activities from the branch to the digital channels, FIs need to have strong digital banking penetration and investment in growing the digital channels. Bank executives should determine where they fall on the maturity curve and then choose a branch strategy that supports their digital maturity (Figure 14).
Human and digital orchestration	There is a time and a place for a human. FIs will need to know when to insert a human into the process. In the beginning, there will be more human intervention, but as digital capabilities mature, the reliance on humans should become less and less.
Ongoing optimization	Branch transformation is not a one-and-done event. It will require that FIs continuously evaluate what customers want from a branch, understand what other experiences are shaping a customer expectation, test, learn, and then refine.
Small business	Some branches still have high small-business activity. One of the challenges with branch transformation is how they can transform the branch experience without creating a negative experience for small-business customers. Some FIs are starting to think about how they can create a self-service ability to place an order and choose a pickup or service location.

Source: Aite Group

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Figure 14: Branch Transformation Maturity Model

Slow followers

- Low or moderate priority on digital investment
- No digital transformation strategy or emphasis on down-sizing branch infrastructure based on consumer digital engagement
- Primarily siloed, channel environment
- Little to no data resources dedicated to identifying branch transformation strategy

Fast followers

- High priority on digital investment
- One or more branch underway with the future proof of concept or request for proposal process
- Working toward cross-channel experiences
- In-house resources dedicated to implementing components of their branch transformation strategy

Early adopters

- High priority on digital investment
- One or more branches of the future use case in production
- Integrated omnichannel experience for major key customer journeys
- Team dedicated to implementing branch transformation strategy

Source: : Aite Group

TECHNOLOGY SOLUTION PROVIDERS

In order to serve customers, branches use a long list of technologies. Rather than list all the solution providers in this space, Aite Group has created a short list of technology and professional services firms that FIs can use to consider how they will recreate the role of the branch in the short term and long term (Table G).

Table G: Branch Technology Solutions

Category	Description	Example of vendors
Branch operations	These solutions help support one or more activities, such as operation analytics, document management, branch design, signature capture, image capture, customer survey tools, deposit decision, application fraud detection, safe deposit automation, front-counter solutions, and back-counter solutions.	Accenture, Bonsey Design, Brighterion, COCC, CO-OP Financial Services, ChexSystems, CoreLogic, CSI, DataVisor, D+H, Delvinia, Diebold Nixdorf, Dinn, Ditroën, Equifax, Experian, Feature Analytics, Featurespace, Feedzai, FICO, Finicity, FIS, Fiserv, Hyland, IBM, ID Analytics, Infosys Technologies LTD, Intellect Design Arena, iSoft, Risk Ident, Jack Henry & Associates, LaMacchia Group, LexisNexis Risk Solutions, Lexmark, MicroBilt, Misys, Nautilus Hyosung, nCino, NCR, Oracle, Pitney Bowes, Q2 Software, Inc., SAP, SAS, Simility, Tata Consultancy, Temenos Group SA, Total Tool, ThetaRay, TransUnion, VantageScore, Wipro, Zoot Enterprises

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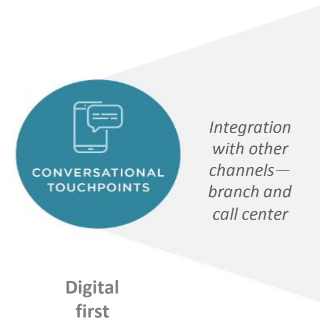
Category	Description	Example of vendors
Customer service platforms or customer relationship management systems	This solution allows bankers to see an overview of customer accounts and to update the accounts.	Accenture, Avoka, COCC, CRMNEXT, CSI, D+H, Diebold Nixdorf, FIS, Fiserv, Fujitsu, Infosys Technologies LTD, Intellect Design Arena, Jack Henry & Associates, Microsoft, Misys, Nautilus Hyosung, NCR, Oracle, SAP, Salesforce, Tata Consultancy, Temenos Group SA, and Terafina
Instant issuance	This solution allows bankers to issue new credit or debit cards to customers to replace lost or stolen cards or to access to new accounts.	CPI Card Group, Entrust Datacard, FIS, Fiserv, Gemalto, and Oberthur Technologies
Beacon	Beacon technology allows customers to use their smartphones to access branch ATMs 24 hours per day and to receive location-based customized messaging about special promotions and events specific to their branch if they so choose.	Gimbal by Qualcomm, Kontakt.io, LabWerk, Onyx Beacon, Reply, and TruBeacon
Digital merchandising	Digital merchandising solutions include corporate branding or product advertisements displayed on large digital screens in which content is managed across the branch network internally or by using third parties so that promotions can be synchronized across the entire bank.	Codigo, Dinn, Image 4, InLighten, Kane Graphical, Kiosk & Display, JohnRyan, Stelmark, and Zero-In
Digital humans	These are animations that visually recreate humans in a virtual environment.	FaceMe and Soul Machines
Sales application platforms	This platform allows customers and bankers to submit applications to open new products.	Avoka, Backbase, BankSight, Bottomline Technologies, CU Direct, Digital Onboarding, FIS, Finastra, Fiserv, Gro Solutions, Jack Henry & Associates, Meridian Link, Newgen, nCino, Q2 Software Inc., Terafina, Zenmonics Inc., and Zoot

Source: Aite Group

NEW TECHNOLOGY CAN HELP RESHAPE THE ROLE OF THE BRANCH

In addition to branch format, FIs can differentiate their branch experience by coupling the physical layout with technology. Several emerging technologies will allow FIs to augment their experience with digital advisors, human advisors, and other technology that enables interaction and communication with customers (Figure 15).

Figure 15: Emerging Branch Technology and Formats



Digital advisors	Human advisors	Enabling technology	Physical format
• Chatbot—natural language processing, text language processing • Voice-activated assistants • AI virtual bot • Robots • Digital human	• Virtual teller machine • Virtual teller • Virtual banker or advisor	• Kiosk • ATM • Beacons • Virtual/augmented reality • Appointment scheduling • Biometrics • Video conferencing • Mobile/tablet devices • Core banking systems • Instant card issuance • Digital advertising	• Full-service • Business center • Virtual branch • Pop-up • Self-service station • Drive thru • ATM

Source: Aite Group

Banking executives have a few emerging technologies that have received a lot of attention, either because they have demonstrated results or because the industry is drawn to the potential of the technology:

- **Digital humans:** Firms such as FaceMe and Soul Machines use technology to create digital humans to help companies personalize their customer interactions. These digital humans act similar to chatbots or interactive assistants but use animation to add human-like faces to the interaction.
- **Robots:** A few FIs around the world are testing or have deployed the use of robots as a new way to interact with customers and streamline branch operations. Robots such as SoftBank Robotics' Pepper are being given a home in a branch to act as a greeter, educate customers on basic product information, or triage customers' needs by asking questions that will allow Pepper to direct customers to the right place.
- **Virtual teller machines:** A virtual teller machine or an interactive teller machine is a device that allows a customer to perform banking transactions and interact with a teller if needed. Tellers are located in a centralized location and are connected to customers using video conferencing. This approach allows FIs to either limit the number of human tellers they have in a location or completely replace tellers and manage teller lines from a centralized location.
- **Video conferencing:** FIs are beginning to tap into the power of video conferencing, which is versatile and can be used to schedule calls with a banker, connect with a banker from an in-branch kiosk, or use click-to-call video capability from a website. It is often initially used to support certain products or resolve issues, and the information is then used to expand how video conferencing can support other areas.

CONCLUSION

In the next few years, customers will still rely on in-person advice and guidance. Over time, digital capabilities will prove their proficiency in being able to deliver advice and guidance customers can trust, and the focus of the branch will shift to support that model. As banking executives start to set their branch transformation strategy in motion, they should consider doing the following:

- **Putting digital-first:** The only way FIs will be able to transform the branch experience is by building a digital experience that is able to connect with customers in more meaningful ways than they are able to connect with customers in a branch. That will require banks to heavily invest in digital, actively migrate customers to the digital channels, and give customers multiple options to connect with a banker.
- **Looking for successful store formats in other industries**: If FIs want to be able to completely transform how they interact with customers, they should look at other industries for inspiration. Customers are already experiencing those formats in their everyday lives.
- **Analyzing demographics and determining what purpose their branch will serve:** From there, FIs can find the right branch format, the right technology, and the right staffing model.
- **Managing branch transformation as an ongoing event:** Consumer needs will constantly change as their expectations are influenced by the retail sector. FIs should continue to learn from different branch formats, technology, and staffing models, but should also look for opportunities to refine their strategies.
- **Exploring new technology:** Plenty of new technologies allow FIs to connect with customers outside a physical location. Bank executives should not only look at the physical format of the branch but should also look at what technology can augment the in-person experience.
- **Implementing omnichannel capabilities:** The ability to let a customer start an interaction in one channel and complete it in another channel of their choice will become increasingly important. In the beginning, interactions will require more human intervention, and bankers will need to know where a customer started, where he or she stalled, and where he or she can pick up the interaction.

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