



Adapting to a  
changing environment  
Evolving Models of  
Retail Banking Distribution





# Foreword

As the recent 'Credit Crisis' continues to reshape the global financial services industry, there are many institutions whose major focus remains on quickly adapting their business models to this new environment. These institutions are examining what existing lines of business will be dependable in the long-term, and are deciding which structures, systems and processes within these lines will need to be changed in order to remain competitive. They are also examining those lines of business unlikely to recover in the short-term, and are deciding how to redeploy these resources in a way that helps recapture some of those lost revenues streams.

One of the areas of immediate concern for these institutions is to find more stable sources of funding. One of these sources being 'rediscovered' by banks is through retail deposits. Global retail banking deposits totaled \$38.6 trillion in 2008, up from \$20.7 trillion in 2003. Almost half of all these deposits (48.5%) took place in the Americas, with Europe accounting for 26% and Asia Pacific the final 25.5%<sup>1</sup>. However customer expectations around the world are changing fast and institutions will need to continue to adapt in order to secure customers - and their vital funds - in the future. This recent report by Deloitte's US Center for Banking Solutions, highlights six market dynamics that are driving this change in the retail banking marketplace. Institutions that can adapt to these new dynamics will hold a competitive advantage in their race to win the retail banking customer.

As the financial landscape continues to change, Deloitte's Global Financial Services Industry network is committed to providing continued thought leadership, surveys and studies on the issues most important to global financial institutions. Deloitte's aim is to help guide clients through these challenging times and provide them with insights useful in not only surviving the credit crisis, but essential for clients to continue 'thriving in a changing environment'.

Regards,

A handwritten signature in black ink, appearing to read 'Chris Harvey', with a long horizontal stroke extending to the right.

Chris Harvey  
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# Executive Summary

There has recently been a renewed interest and focus within the global financial services industry on retail banking. This has partly been driven by the search for profitable areas of business during the current turmoil, but it has also been driven by the search for more stable sources of capital and funding.

However with interest rates at historic lows, banks are having to be more creative in thinking up away to attract new depositors. The answer could lie in a combination of service, convenience, security and flexibility.

The following report produced by Deloitte's U.S. Center for Banking Solutions, examines how reformatted branches and alternative retail distribution channels for banking services are likely to become increasingly important for attracting depositors in the near future. While the research is based on the experience of U.S. banks, Deloitte believes there are universal truths to be gleaned from this study, which make the findings of interest globally.

## Banks as retailers

Over the last decade, retail banks operating in the U.S. have generated significant revenue and profit growth; however, when their track record is examined in terms of cross-sell rates and customer retention, they continue to deliver inconsistent results. If these banks are essentially major retailers — after all, many banks have as many financial centers as some of the largest super-retailers — why haven't they been more successful by traditional retail metrics? Why has creating a consistently high-quality customer experience continued to elude them? Even though they are increasingly being drawn to the retailer's blueprint, which has been demonstrated to facilitate astute and nimble responses to customers' needs, they are still slow to adopt the strategies that could allow them to capitalize on the tremendous additional potential for growth and profitability that a customer-centric retail orientation brings. Can U.S. banks evolve to a more customer-centric state? What opportunities should they pursue to realize a dramatically different customer experience?

Many U.S. banks have made strong progress in improving their customer experiences, particularly in the following areas: customer data and segmentation; leveraging data to deliver a better product mix; creating a distinct brand image; and improving service operations. Deloitte believes the banks' challenge is to improve and integrate their multiple distribution channels to consistently deliver an enhanced experience and foster better customer relationships. As the primary means of

customer service and sales interaction, distribution channels play a central role in the customer relationship process, which fuels growth. That's why retailers place great importance on the look, feel, layout, and customer convenience of distribution channels, whether they comprise physical locations, Web sites, kiosks, or interactions with sales professionals. For the same reason, they make attracting and retaining customers within and across these channels a top priority. Banks must do the same.

For most U.S. banks, the branch presently dominates their distribution approach, while other methods of interaction such as direct channels and alternative face-to-face (F2F) outlets are less important and not well integrated. But this situation appears to be changing fast. Research by the Deloitte Center for Banking Solutions has identified six converging market dynamics, which are creating an inflection point in the evolution of retail channels for banks. These market drivers are rapidly transforming the retail distribution landscape for banking services in the U.S. from a branch-dominated paradigm to one of integration and balance among multiple channels.

Branches will still play a vital part in this new equilibrium, but they will be very different. As transactions begin to take place via other channels, U.S. banks will increasingly behave like traditional retailers, focusing more on sales and complex service opportunities. Meanwhile, technological advances can enhance the ability for direct channels to fulfill their potential as a source of banking sales and service with higher convenience at lower costs. Alternative F2F channels will also emerge as strong, viable distribution options in this new landscape because people will still value personal interactions. An integrated customer focus will become critical across these channels as demographic shifts usher in a new — and highly discriminating — breed of customer.

U.S. financial institutions will be faced with some tough strategic decisions in adapting to this new environment. At a minimum, they will want to determine how and when to revitalize the branch, the existing primary channel for most, to draw customers in and to address their changing expectations. They will also want to consider how to develop and expand non-branch channels to be competitive in attracting, serving and retaining customers. In addition, they should look for cost-effective ways to make their channels more integrated and customer-focused.

Should U.S. financial institutions address these challenges through small incremental improvements or major leaps of change? The research findings, potential projects, and strategic possibilities presented here are intended for banks to consider as they develop a solid framework for navigating the sea change that lies ahead.

# Six Market Dynamics

The research by the Deloitte Center for Banking Solutions has identified six market dynamics, the convergence of which has created the inflection point U.S. banks face today in the evolution of retail distribution channels for banking services. We believe understanding these dynamics is critical to developing effective customer-focused strategies and to determining the roles that existing and nascent channels could play in them.

## **Trend 1: U.S. Branch-generated revenue growth is becoming more challenging.**

While growth at existing branches continues to be strong in the U.S., this is not the case at many new branches. Growth at branches outside of a bank's existing footprint is uneven and weak. From 2000 to 2006, U.S. bank deposits grew by 61 percent, while the number of branches grew only 11 percent.<sup>2</sup> Since deposits grew faster than branches, revenue per branch logically increased — fueling the push among banks to build more outlets. Although the U.S. is the only industrialized country in the world to have significantly increased the number of branches per million residents since 2001, it still remains behind many countries in branches per capita.<sup>3</sup> Despite this gap, the era of rapid branch expansion in the U.S. may be coming to an end. Of the branches built in 2001, 60 percent have not yet reached a break-even level of deposits.<sup>4</sup>

Simultaneously, it is becoming increasingly expensive to acquire existing branches. As a natural consequence of the continual stream of acquisitions over the past decade, our observations suggest the number of attractive and willing sellers of retail banks is in the U.S. dwindling, thereby raising the effective cost of acquiring additional branch capacity. In addition, the quality of smaller bank branch networks is highly variable, with many fast-growing, newer local banks, being no more than real estate-loan production offices funded by high-rate deposit bases,<sup>5</sup> presenting a less-than-attractive book of business for expanding a traditional branch network and acquiring core customers.

## **Trend 2: Transactions processing and customer service are becoming increasingly independent of the branch channel.**

Why visit a bank branch? For decades, most people visited the branch for credit approval, to conduct transactions, learn about products and services, and for customer service. However, most credit approval processes moved out of branch networks over a decade ago. Today, many of the core transactions that were once conducted in branches are shifting to electronic forms or are being captured elsewhere. While this phenomenon has been under way for some time, its momentum is rapidly accelerating. Today, remote deposit capture (RDC), a service that allows users to scan checks and transmit the scanned images and/or ACH-data to a bank for posting and clearing, is already demonstrating its potential in the U.S. to substantially reduce the volume of payments processed at branches. In 2007, over 3.8 billion items, worth more than \$7.6 trillion, were handled by RDC in the U.S., with volumes expected to grow more than four-fold by 2010 as the number of RDC users increases dramatically.<sup>6</sup> Although this still represents a small portion of total checks, use of RDC has expanded significantly with many major banks rolling out RDC-capable ATMs. Now that RDC can be done via a common scanner, its growth will continue to accelerate, particularly as an offering for small business customers. Some banks are even testing the feasibility of using mobile phone cameras to do RDC.

In addition to its many customer advantages, RDC can also benefit banks, particularly community banks, by allowing them to expand beyond their current geographic footprints and reduce the number of full-time equivalent (FTE) staff members committed to handling branch transactions. For instance, 46 percent of local banks expect to offer RDC to their small business clients over the next 12-18 months, according to a recent survey by Independent Banker.<sup>7</sup>

Lagging the global shift to electronic payments, the U.S. continues to complete proportionately more paper transactions than the rest of the world.<sup>8</sup> This further suggests that the U.S. banking industry may be on the cusp of a significant payments transformation. While the United States has historically been out of sync with other countries' payment practices, it is now becoming more aligned in order to stay competitive and to facilitate global commerce. The emergence of widely available and accepted mWallets for electronic and contactless payment will likely aid this alignment, accelerating the already substantial movement of transactions away from branch networks.

**Trend 3: Customer demographics are shifting in the U.S., making Generation Y and ethnic groups vitally important.**

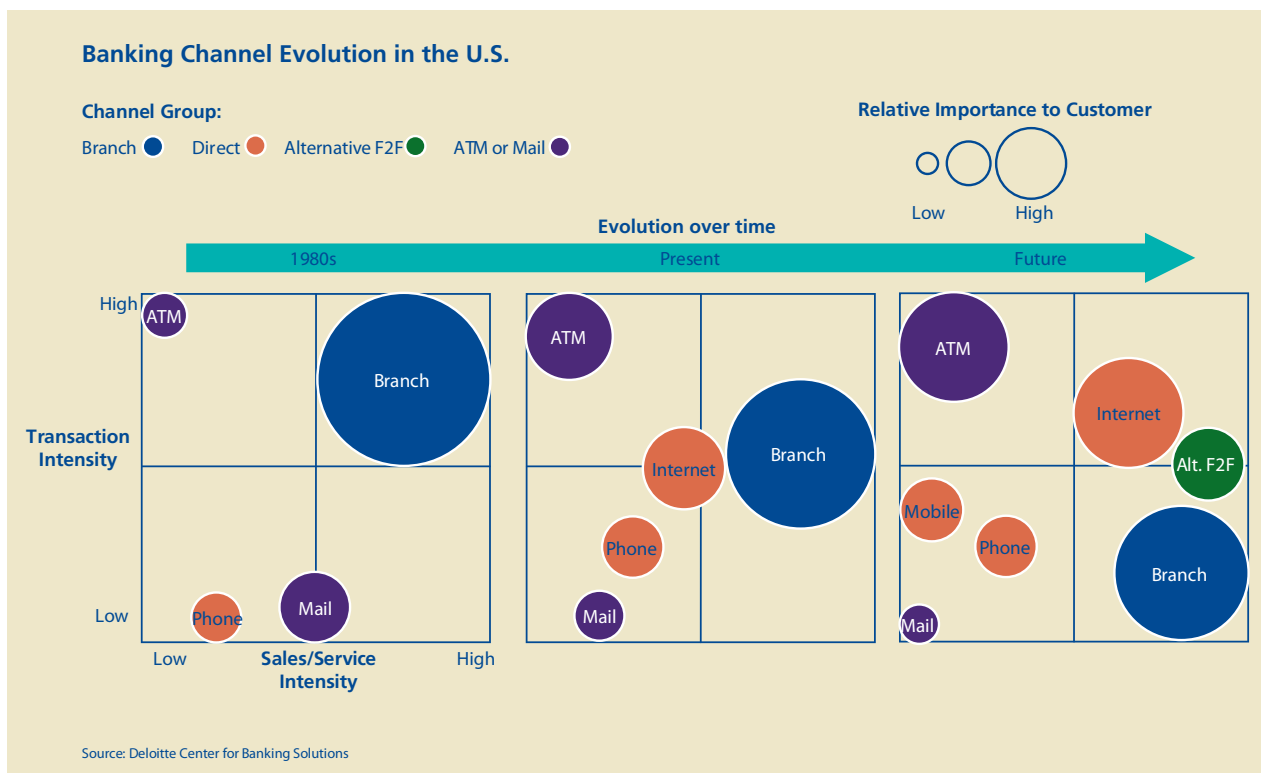
More than 75 million strong in the U.S., the Gen Y customer segment (born between 1982 and 1995) is second in numbers only to the 80 million Baby Boomers.<sup>9</sup> Furthermore, Gen Y is positioned to become the wealthiest U.S. generation to date, with a collective income that is expected to grow to \$3.5 trillion over the next 10 years.<sup>10</sup> Yet recent research conducted by the Deloitte Center for Banking Solutions and Harris Interactive reveals that members of Gen Y have individual characteristics that make them a different breed of bank customer, requiring banks to employ different kinds of channel strategies to attract and retain them.<sup>11</sup>

Practicality is among the most important of these characteristics. Gen Y customers in the U.S., accessible banking and appears more prone than other generations to consider options from other institutions, especially relating to fees, convenience, and online capabilities. Younger respondents (both Gen Y and Gen X) were more likely to switch banks for lower fees, more convenient locations and banking hours, and the ability to conduct more activities online.

Another characteristic of Gen Y consumers in the U.S. is that they view technology as a way of life, an extension of themselves. At the same time, they value direct interaction with people for some types of banking transactions such as answering questions, resolving issues, and opening an account. They also like to do their own research before making buying decisions, but they look to family and friends to support their conclusions, a tendency reinforced by their participation in social networking Web sites.

These characteristics suggest that Gen Y consumers are well-connected, multi-channel buyers who have high expectations for convenience, information, and service. To attract and retain them, banks must offer channels that are easy to navigate, that provide a consistent customer experience, and integrate seamlessly.

Another source of demographic change and population growth is from ethnic groups in the U.S. Multicultural and new immigrant customers have a series of financial needs and preferences that are slightly different from those of traditional retail banking customers. The ability to access basic banking services, credit, the remittance system, and customer sales and service in their native languages will influence where they become customers as has been the case in mature banking markets such as Australia, Canada, and the United Kingdom.



**Trend 4: New technologies are gaining widespread adoption in the U.S., allowing customer relationship management to become channel independent.**

Internet banking has received the most coverage in the past decade, however, the adoption of new technologies may profoundly influence the distribution of retail banking services. One area of impact may be the movement toward greater mobility as mobile phones become more sophisticated and, therefore, more capable of handling advanced applications and services. Banking via mobile phones appeals to consumers on multiple fronts. Customers may not know the location of their closest branch or even where their credit or debit cards are, but they always have their mobile phones nearby. Mobile phones also serve as an efficient vehicle for making contactless payments or person-to-person transfers, providing greater security protocols and storing in-depth preference information. This is efficiently accomplished via an existing device, without the need to load an extra smart card. Various software platforms for mobile phones and other devices will allow consumers to use the Web through their handhelds as easily as they do through their computers. It is anticipated that this will spur rapid demand for mobile-banking services over the next decade.

Other technology developments are also poised to affect the distribution of retail banking services in the U.S.. For instance, growing broadband internet penetration and wider use of low-cost, high-quality webcams will allow banks to use Web 2.0 or other collaborative tools to reach customers at their homes offices, in branches and at ATMs. This capability is providing banks with fresh alternatives for customer interaction such as video conferencing or co-browsing to support dynamic consultations at convenient locations. One Australian bank has a VoIP (Voice over Internet Protocol) network with enough bandwidth to handle video streams so that remote relationship managers, loan officers and insurance professionals can advise and serve clients at a distance. Additionally, the growing use of instant messaging as a business tool, the expanded use of social networking sites, and increasing consumer acceptance of self-service kiosks are likely to influence consumer preferences for banking delivery channels going forward. Dramatic improvements in security and authentication are addressing the concerns of those customers who have been hesitant so far to use mobile technologies or to bank online as well.

Meanwhile, technological progress is also providing the means for banks to operate more efficiently and cost-effectively. Advances in network capabilities and “thin client” computing are enabling banks to deploy different IT configurations in branches and remote offices, thereby reducing the cost and complexity per outlet while providing more functionality to staff and customers. Other developments, such as Radio Frequency Identification (RFID), can be used to provide increased security and better risk management while enabling banks to more rapidly access customer information. Web-based approaches, such as online assistance, can enable banks to provide person-to-person assistance more productively than branch-based staff, while also allowing them to employ leading offshoring techniques at a far lower cost per interaction. Finally, the growth in aggregate knowledge sources and tools will likely enable banks to better merchandise and respond to their potential customers, tailored by distribution channel.

**Trend 5: Changes in the U.S. regulatory environment are altering the playing field.**

Many recent regulatory changes were designed to foster innovation and enhance efficiency in the payments system. The Check Clearing for the 21st Century Act (Check 21) in the U.S. , for instance, has paved the way for remote deposit capture, which is demonstrating the potential to displace a large portion of branch-based transactions. While Check 21 to date has had the biggest impact upon retail distribution of U.S. banking services, other regulatory trends will also be important in shaping the channels of the future. These include:

- Increased customer goodwill policies: Already a significant trend in European retail banking and U.S. retail insurance and investment businesses, this movement to provide greater protection and information to consumers is starting to influence U.S. retail banking. Stipulations associated with increased customer goodwill often include more transparency on pricing and fees; stricter requirements to supply consumers with real-time information so they can make better-informed choices (such as whether or not a non-sufficient funds fee will be incurred on a transaction); and the ability to produce an audit trail that demonstrates that the bank acted in the customer’s best interest, which is similar to the requirements imposed upon the insurance and securities industries.
- Implementation of Basel II in the U.S.: While focused primarily on capital adequacy, this development will likely lead to differential pricing by product and channels as a result of explicit strategies to attract certain segments of customers. Additionally, the infrastructure created by banks to comply with Basel II will provide retail banks with enriched insights into their books of business and customers’ behaviors.

- Enhanced security and privacy regulations: More stringent requirements in these areas will make it more costly and complicated to share information about a customer across legal entities. They will also necessitate more complex and expensive means of identification and access management for both customers and bank staff. Ongoing pressures related to anti-money laundering (AML) regulations will continue to make account-opening and money-transfer processes complex and cumbersome as well.

A recent survey by the Deloitte Center for Banking Solutions found that the cost of compliance with the enhanced security and privacy regulations at major U.S. banks has grown from 2.8 percent of banks' net income in 2002 to 3.7 percent by 2006. These regulatory changes both increase the cost and complexity for existing banks and open the playing field for non-traditional competitors.

#### **Trend 6: U.S. Banks should prepare for overlapping competitive dynamics in retail financial services.**

In the U.S., retail banking offers a bigger profit pool, more stable returns, and a more fragmented industry structure than many other types of businesses. While scale is important at the micro-market level or in selected product lines, newcomers can sometimes achieve the volumes necessary to be competitive without taking a leading market share position. As a result, non-banking financial services companies are increasingly entering the retail and small business banking space, competing for customers and their balances.

With the competitive door continually ajar, existing banks are constantly under threat. Several other industries have chosen to enter banking services including, but not limited to, retail brokerage firms; life insurance companies; general insurance companies; health care insurance companies; and retailers and e-commerce companies. Banks should be on alert and planning for the inevitability of multiple, non-bank entrants for a number

of reasons. First, the erosion of branch-based transactions may significantly reduce the natural advantage retail banks have had for decades to blunt the invasion of new bank entrants. Second, several non-bank companies have stronger sales cultures, higher customer service approval ratings, and more formidable brand equity than many U.S.-based banks. Third, each type of non-bank competitor offers customers an individual value proposition that may include, for example, bundled insurance and deposit or savings products, one-stop shopping with a single financial institution, convenient store locations, or innovative products such as mobile payments. Finally, some non-banks such as online retailers or search firms may bring approaches and a set of economics that envelope and overwhelm the traditional economics of the "old retail banking payment systems," making banks little more than commodity vendors of a low-cost banking service within these emerging customer paradigms.

#### **An inflection point for banking**

These six market dynamics are creating a dramatic inflection point for retail banking in the U.S. The needs and expectations of bank customers are changing as quickly as the competitive landscape. Customers are demanding seamless, multi-channel sales and service experiences. Simultaneously, other financial institutions are either looking for opportunities to invade this attractive space or to redefine it through disruptive innovation. These trends, including the evolution and diminution of the branch and the rising influence of alternative face-to-face and direct channels, are causing banks to examine a more balanced channel approach. It is anticipated that all channels will become more customer-focused, integrated, and interdependent. Many retailers and technology firms have long recognized these trends. Taking their cue, banks will still maintain branches as a vital part of this new equilibrium, but the branches will look very different and play a very different role in meeting customers' needs.

# Branch Banking: Transforming the Primary Channel

U.S. Banks have made enormous investments in their branch networks over the years, which naturally raises concerns about what will happen to those expansive — and expensive — networks as they come under pressure from shifting market dynamics. The good news is that branches are not going to go away. Over the next decade, the primary channel in the U.S. will likely remain the branch, but other channels will become significantly more important for both sales and service. The emergence of other channels, coupled with fewer branch transactions, will influence the evolution of “next generation” branches, forcing them to transform their appearance to be able to offer very different value propositions. The bad news for banks with major branch networks is that they are at the beginning of a massive outlet transformation that will consume their time, attention, and money over the next decade.

Deloitte’s research and experience suggest that the U.S. branch changes over the next 10 years will likely center around five main areas: branch redesign to help customers better navigate the outlet; operating model and staffing changes to improve customer service by engaging the customer in new ways; technology enhancements to improve the customer experience and increase cost productivity; enhanced network management to increase customer convenience while improving flexibility and cost effectiveness; and better connecting the community and the customer to create greater brand loyalty.

These changes focus on putting the “retail” more dramatically into the distribution of banking services. Banks should view branches as outlets or destinations for customers and, as such, should redesign them to meet the needs of individual customer segments and to enrich the customer experience. In parallel, the associated investment and operating costs should be reduced.

## Creating the retail environment

Retailers have long recognized that it takes more than just good products to bring in customers and keep them in the store. The most sophisticated retailers have become very adept at designing their stores around the needs of their customers, with the goal of making them “destinations” — some place that customers want to visit as opposed to some place they have to endure. Bank branches, on the other hand, have typically been designed as transaction centers, aiming for speed and efficiency as opposed to creating a positive and memorable customer experience, that attracts customers.

“Next generation” branches are gradually moving from formats that focus on teller lines and transactions to models that give customers clear signs of where to go when they come in, with an eye toward significantly improving the retail experience. Some banks are enthusiastically embracing this trend by borrowing the “concierge” concept from hotels, where a lobby manager or other bank employee greets customers and expeditiously directs them to the areas of greater opportunity for the bank. Other navigation aids include prominent signage that provide clear directions to product areas and centrally located information kiosks that create an obvious first stop for customers when they enter the branch.

Among the early movers incorporating alternative retail design practices, Umpqua Bank in the U.S. has borrowed concepts from electronics retailers and redesigned many of its branches to reflect a modern motif, featuring video screens, lounge areas, and meeting spaces. Umpqua has created an attractive place for people to visit — not necessarily to do banking but to interact with each other for social or business reasons.

As the more effective retailers have recognized for some time, store design is a key part of the results obtained from the retail footprint, and with it the concept of flow management. Jyske Bank in Denmark is an excellent example of how store design goes hand-in-hand with effective practices in managing customer traffic. Jyske Bank remodeled 119 branches as “destinations,” resulting in an open layout that appears more like a wine bar or clothing store. Customers are greeted by a concierge at the AskBar, and they are encouraged to wander around the different areas of the bank. Free coffee is available at the coffee bar; bank products can be inspected as if they were on display in a store in the Market Square, and transactions can be conducted at the Money Bar. Alternatively, customers can relax in the Oasis area to enjoy one of the flat-screen TVs that adorn the walls.

### Leveraging technology to improve the customer experience

Branches will have little choice but to leverage technology to its fullest, if not to manage operating costs, then to meet the expectations of Generation Y and its younger counterparts who view technology as an integral way of life. Gone are the days when technology was only seen and used by trained branch staff, remote from ordinary customers. Today bank branches around the world are creatively using technology to construct a new image for their branches, inform consumers about products and services, enhance customers' branch experience, and give them an opportunity to execute basic banking services without queues.

Raiffeisen Landebank (RLB) in Austria, for example, uses a dynamic digital display system to communicate product messages within its 400 branches that are deploying high-functionality ATMs. These machines enable customers to buy theater and airline tickets, top off phone cards, and play games, while providing the bank with a means to proactively offer products and services such as credit when a customer's balance is running low. Drawing on the lessons from other industries, HSBC and Emirates Bank have invested in check-imaging ATMs for depositing, while Barclays and HSBC are employing self-serve kiosks for transactions such as bill payments, funds transfer, statement printing, and passbook savings updates. Still, branch technology doesn't have to be extraordinarily sophisticated in order to be useful. For instance, Commerce Bank in the U.S. has invested in coin-counting machines that have demonstrated to be an effective draw for both customers and non-customers alike.

### Increasing convenience through network management

Convenience is and will continue to be an important driver of customer behavior. Given the changing formats and roles of branches in the future, banks can learn some lessons from retailers about improving their network management to enhance customer convenience. Retailers use a process that begins with developing a series of format models that examine current and future market demands and competitive positioning to identify the gaps in the existing network configuration. This discipline of determining when and where to locate their future stores, as well as how and when to renew or add modules to existing outlets, is viewed as a critical competitive capability of high-performing retailers. Unburdened from being transaction centers, banks can benefit from considering these factors in determining where to open new branches, what products to offer, and how to manage their existing networks to generate more revenue per square foot.

Sometimes the insights can be surprising. Several banks have found that in light of location and market factors, traditional, full-service, stand-alone branches are not the most effective way to reach a particular customer segment while effectively utilizing their available space. For example, North Shore Bank has launched mini-branches alongside fuel filling stations to create a better drive-in experience. This type of arrangement can be a good choice when the economics of the area do not justify establishing or maintaining a self-contained unit. This is why we expect the number of branch outlets to continue to grow in the U.S., although their average size will decrease.

### Using community connections to create greater brand loyalty

Relationship building is the strength of many smaller banks, which can be seen as one reason why community banks have been able to maintain a significant market share. With Gen Y indicating that they are more willing than previous generations to switch financial institutions and that they value community involvement, the ability to create long-term, local relationships will become a deciding factor in who wins the battle for the next generation of retail customers.



Retailers around the world are employing creative approaches beyond the historic tactic of donating funds to local groups to demonstrate their connection to the community. Best Buy, A U.S. electronic retailer for instance, featured paintings by local artists during the launch of its first store in China with a goal of making people comfortable and showing that the Best Buy brand fit in with the local market. A bank opening a branch in Portland, Maine borrowed this concept, using pictures of local fisherman to reinforce its commitment to the area. In contrast, the HSBC branch in Manhattan uses sleek, modern architecture to fit with the city's high-tech, urban environment.

Local banks have long been leaders in focusing on service and relationship management, and they appear to be pushing the concept of community involvement even further. Umpqua Bank has begun sharing its facilities with the community for business or social networking. To make branches more viable in smaller communities, some institutions are testing the concept of a "neighborhood" store, in which the community shares some of the management responsibilities and operating costs. Bendigo Bank in Australia has taken the lead in developing these types of branches, which have a high level of customer retention and financial performance.

#### **Customer-centric bank retailing lies ahead**

There are several indicators that branches can move quickly toward a more customer-centric service and sales orientation. Branch renewal is already being done globally, and U.S.-based banks are starting to experiment with improved branch designs and layouts. Furthermore, enhanced customer experiences in retail and online stores have raised consumer expectations so that bank customers demand better service and convenience at their branches.

Yet many factors may inhibit this transformation. The cost of reformatting extensive branch networks may be a major obstacle, especially during a period when most executives are deferring or reducing branch-care costs to meet short-term cost targets. Near-term cost pressures will also exacerbate the already intractable task of balancing new branch openings with existing branch modification. Nevertheless banks must start thinking about how to revitalize their branch networks to meet the needs of the impending wave of more discerning and less transaction-intensive customers.

#### **Taking Action to Transform the Branch Network**

Converging market dynamics are driving banks to revitalize their branch networks despite cost pressures. In formulating a renewal strategy, your bank will likely need to find creative and cost-effective ways to:

- Design and test next-generation format models that are efficient and sufficiently advanced to address evolving customer preferences.
- Rebalance staff and branch processes to focus more on complex service issues and on the necessary sales opportunities to continue deposit and investment growth in existing branches despite declining customer traffic.
- Invest in advanced technology – especially communications related to enable real-time delivery of face-to-face expertise at dispersed branches.
- Develop revised network models that reflect the changed roles of branches, automated teller machines, and alternative outlet types within a market.
- Actively manage the migration of transactions away from branches by implementing various projects simultaneously to move payment transactions away from expensive branches and into other channels that are lower in cost.
- Outline an economically viable means of modifying existing branch approaches, while maintaining or increasing de novo growth to improve customer convenience in select markets.

# Alternative Face-to-Face Banking: Providing More Choices in Personal Channels

Advances in payment mechanisms and delivery technologies, coupled with new regulations, have initiated an accelerated decline in the volume of branch transactions. However, while customers' dependency on branches is lessening, they still want face-to-face interactions at various stages of their sales and service processes. Consumers' unwavering desire for personal contact is paving the way for the emergence of a variety of alternative face-to-face (F2F) channels that offer another means of interacting with customers one-on-one through non-branch approaches. Research conducted by Deloitte indicates that roughly 8 percent of total U.S. investable assets could move to alternative F2F channels in 2010.<sup>12</sup> Early market indicators suggest that three emerging alternative F2F channels are likely to play a larger role in retail banking during the next decade: Growing mobile sales forces, enhanced broker/agent networks, and retail stores as a means to reach underbanked segments.

## **Channel 1. Growing mobile sales forces.**

Interacting with customers via mobile sales personnel or relationship managers represents the most attractive F2F growth option for established banks and financial services institutions. This model has been used in the U.S. for high-margin, one-off banking products such as mortgages, and for some segments of very affluent customers. Now changes in payments, technology, and customers' behaviors are making such products viable across a wider spectrum of the retail banking marketplace.

Utilizing mobile bank sales personnel is appealing as it offers customers the advantage of increased convenience and more personalized service and, if properly managed, can provide banks and financial institutions attractive economics and greater flexibility. A mobile sales force can also provide the opportunity to convert fixed staff costs into more variable compensation models. The National Australia Bank (NAB), for instance, utilizes an outsourced personal and small business sales force (mobile bankers) in the United Kingdom that can be scaled up or down depending on market conditions.<sup>13</sup>

In Australia, the NAB deploys a small business sales force in branded cars to interact with its numerous small business clients. Many U.S. local banks are already employing mobile relationship teams, taking advantage of their high-quality relationship capabilities and the benefits of remote deposit capture, which make it easier for a small business to bank with an institution that has fewer branches. Some financial institutions are also experimenting with workplace sales models to see if they can effectively attract traditional retail customers without the presence of a branch, while others are experimenting with at-work or in-home sales and service visits or meetings at shared third-party locations.

## **Channel 2. Transforming existing broker/agent office networks.**

Providing bank sales and service via existing agent or broker networks is a natural extension of the relationships these financial advisors have with their clients, and it offers bank customers the attractive option of consolidating their financial services. Several insurance, brokerage, and other financial services players have outlet networks that rival those of the largest U.S. bank branch networks. These organizations also have the advantages of well-known and more respected brands, stronger skills in sales and service, and more experience in teaming with other firms and specialists to serve customers' diverse financial needs. By enabling customers to consolidate their financial services providers, banks stand to gain better customer information, which in turn can enhance cross-sales opportunities. In addition, the economics of some insurance and financial services businesses are declining, which is pressuring them to find new sources of profitable growth.

This type of alternative F2F channel is also likely to expand because there are relatively low barriers to entry for leveraging existing financial services networks to sell and service banking products. For example, a global broker-dealer has marketed banking products and services for many years to clients with low transaction intensity, especially ultra-high-net-worth and small business customers, and its deposits have grown rapidly since 2003.<sup>14</sup> Wachovia Securities, the U.S.'s second largest retail broker, is competing both ways by selling banking products via their financial advisors in their traditional offices, and putting brokers into Wachovia branches to team with their bankers. Citigroup and JPMorgan Chase are engaging in similar activities. Growth of this channel will likely be driven by the combination of customers' desires to have face-to-face interactions at specific

points in their sales and service interactions, and by the sheer number of non-bank financial services companies that see retail banking as an attractive market for additional growth. MetLife U.S. insurance giant, for example, has achieved a 20 percent cross-sell rate between insurance and banking products with MetLife Bank.<sup>15</sup> It has achieved these results by utilizing a model that leverages brokerages to act as sales points for banking products but requires customers to apply online.

At the same time, financial services companies choosing to go this route should be cognizant of the regulatory, organizational, and operational hurdles that exist in entering the retail banking market. Still, growing deposits and developing a lending business are very attractive for relationship building and outlet economics. New technologies and the continued growth of third-party banking service providers are making it easier for these existing advisor networks to deliver a competitive banking platform. Additionally, the increased functionality of automated telling machines and kiosks is making it feasible to convert almost any office into a mini-branch outlet with limited transaction capabilities.

### Channel 3. Retail stores to serve underbanked segments.

Historically, many mainstream retail banks in the U.S. have experimented with selling banking products through U.S. grocery stores and achieved mixed success. Major retailers such as Wal-Mart and Home Depot have also tried to directly enter this market but faced stiff regulatory opposition. However, global experimentation in both the United Kingdom (by Retailers Tesco, Sainsbury's, and Marks & Spencer) and in Canada suggests that this retail model can be viable and that it can expand under one of two approaches. The first focuses on the simple needs of those who still rely primarily on physical outlets while the second depends on more customers to use retail stores for their banking needs in conjunction with the retailer's direct channel. This is of particular importance to the segment of the U.S. population who might not otherwise have access to a bank branch and that has been accessing the U.S. financial system through networks of pawnshops, check-cashing and money transfer outlets.

Retailers could gain several advantages based on the strength of their networks, their brands and the composition of their natural customer bases. They can leverage existing locations and staff to offer low-cost services and use banking transaction information and incentives to generate additional store visits, which in turn can boost sales of traditional retail products. Retailers are now retooling their targeting strategies as they attempt to define the customer segment that values having an accessible, low-cost network of simple transaction, deposit, and lending products.

The proliferation of examples suggests that the alternative F2F channels offer a growing area of opportunity to connect personally with customers outside the branch. It also offers a significant opening for non-banks to enter the retail banking marketplace. It is to the banks' detriments to ignore this emerging personal channel.

#### Responding to Increasing Alternative F2F Activity

Alternative F2F channels present both an opportunity (to connect with customers outside the branch) and a threat (non-banks can enter the retail banking space). To respond to this challenge, banks can take several actions:

- **Expand alternative mobile sales force capabilities:** Attract experienced sales people or transition existing staff to become mobile bank relationship managers. Equip managers with mobile technology to execute and fulfill sales transactions remotely and provide simple service activities.
- **Explore franchise branch networks:** Change branch management from employed staff to independent operators who share in the economics of the branch. Give these owner-operators some flexibility to offer more customized staffing and sales and service, while centrally retaining product pricing, credit authority, and back-office operations.
- **Convert agent/advisor brick-and-mortar offices into banking outlets:** Grow the number of physical customer touch points by providing sales and service through new locations such as brokerages or agent outlets. Banks could co-locate with non-banks or non-banks could collaborate with banks to offer their own branded services. Non-banks could cross-sell financial services offerings with their own products at shared sites or even co-locate at retail banking malls such as exist in Dubai.

# Direct Banking: The Fastest-Growing and Dominant Channel of the Future

Direct banking, which is usually thought of as just online banking from a specific institution, encompasses a wide range of channel approaches to sell to and service customers' needs, including ATMs, call and email centers, mobile banking devices, direct mail, and a variety of Web-based models.

Statistics show direct marketing to be the fastest-growing channel to retail bank customers in the U.S. Over the last five years, the number of U.S. households banking online has grown at a compound annual growth rate (CAGR) of over 20 percent. At present, about 46 million households (56 percent) in the U.S. bank online.<sup>16</sup> During the same period, direct banking deposits have grown by a CAGR of 55 percent and currently there are about \$150 billion in online-generated banking deposits.<sup>17</sup> Deloitte believe's direct-banking sales volumes are poised to grow even further over the next five to 10 years as the channel evolves primarily from a service tool to support branch networks to a customer-driven platform for collaboration and relationship management across a wide range of sales and service needs.

## Established direct-banking models

Today, there are basically three types of direct-banking models emerging in the retail banking marketplace. The oldest involves direct-banking channels that are complementary to a branch-banking strategy. This model is commonly found within local banks, which tend to depend on the branch as the primary channel but offer simple sales and service capabilities online to give customers an added level of convenience. Several of the major U.S. regional banks' Web-based services have been designed to complement their branch-based activities but not to supplant them. These Web sites may be state-of-the-art and have high levels of customer service, but are just positioned to support a more traditional approach to banking that is grounded in face-to-face sales and service.

The second type of direct-banking model involves a greater balance among the different distribution channels. Bank of America is an example of this type of approach. It markets both simple and complex products through its online channels and it gives customers the opportunity to access the same range of services that are available through local branches. In most cases, direct channels are not yet highly integrated with the other channels but they are rapidly moving in that direction. These institutions are increasingly attracting new customers through the direct channel.

The third type of current direct-banking model, where the direct-channel is most dominant, is easy to recognize. E\*Trade and USAA provide examples of companies that have taken advantage of the numerous benefits of direct channels almost exclusively to deliver an integrated suite of financial products and services to their customers. Some of these organizations have limited networks of physical outlets, but their role is primarily as a marketing device and 'security blanket' for their remote customer base.

## The emergence of aggregator models

An analysis of converging market dynamics suggests that the next phase in the development of the direct-banking market will be growth in various aggregator models. One type uses a direct, Web-based intermediary to offer the customer products and services from several different banks. The customer then has the option to select the offering that best meets their needs. LendingTree.com and QuickenLoans in the U.S., which aggregate mortgage, auto-loan, and other credit offerings, exemplify this model in the banking space. While many of these aggregators begin by focusing on one product category, as with the online travel sites, they are moving to cover a wider range of products and services to encourage repeat customer visits.

Another form of aggregator model is focused on providing a single, integrated view of a customer's financial accounts across multiple institutions. Since many retail banks are yet unable to deliver this unified view or extract value from it, a slew of account aggregators, such as Geezeo, Wesabe, and Mint Software,<sup>17</sup> have emerged in the U.S. The latter uses a revenue model similar to search engines, mixing sponsored links with unpaid recommendations. Intuit's foray into this space employs a subscription model.

From the bank's perspective, aggregator models are a two-edged sword. They give banks the advantage of accessing these low-cost, alternative distribution channels, which can help them reach more prospective customers with little overhead expense. The downside is that aggregator models commoditize banks in the process, forcing them to compete mainly on the basis of price, product attributes, and brand. Banks are thus facing the same situation as airline and hotel industries as they must determine how to simultaneously compete and cooperate with the online aggregators.

#### **Mass collaboration: The next frontier in direct banking?**

Another dimension of the evolution of direct banking is likely to be the growing prevalence of mass collaboration models. A collection of collaborative technologies — including blogs, wikis, RSS, and podcasts — has given birth to social computing, which uses the Internet to directly connect individuals through their affinity communities and areas of interest rather than through geographically oriented institutions. This form of interaction is exemplified in eBay, the marketplace online that has been created by the cumulative contributions and ongoing offers from hundreds of thousands of individuals on a variety of topics. In the banking space, mass collaboration is beginning to take shape in the form of person-to-person (P2P) lending businesses.

In P2P lending, a borrower proposes a loan online (amount of money, repayment period, maximum interest rate, and so on) and potential lenders define how much they are willing to lend and the minimum interest rate they require. This interaction occurs through a Web-based marketplace operated by the P2P lending company, which simply mediates the lending and repayment process instead of legally holding the assets and liabilities of each party. In other words, a P2P company essentially serves as an effective introductory service, executing the transaction and the payments on behalf of both parties and providing information about the status of the relationship, similar to the role that eBay plays in the exchange of physical goods.

P2P lending in itself is nothing new — it has been taking place informally off-line for a long time through in-person social networks. For instance, ethnic affinity groups in the U.S. have engaged in family-to-family lending for generations. However, it is only recently that P2P lending has started to shift online, emboldened by other financially successful P2P exchange models such as eBay, and by the growth of alternative payment forms. To date, this shift has been led by Zopa and Prosper, two companies that have pioneered Internet-based P2P lending. Recently, noted UK entrepreneur Sir Richard Branson acquired the U.S.-based P2P company, Circle Lending, rebranding and launching it as Virgin Money USA to focus on loans with participation from friends and family.

The impact of online P2P lending is likely to be very small in the near future, but this new way of exchanging funds raises the specter of disintermediation, potentially threatening the traditional economics of the retail banking business over the long run. Banks' current customers are unlikely to migrate to an Internet P2P marketplace anytime soon; however, if younger generations, ethnic groups, or people with strong affinity affiliations favor the person-to-person approach, it could have a near-term impact on bank growth strategies since it will require banks to develop different marketing techniques, platforms, and skills. Also, P2P approaches could offer an attractive return-on-equity equation for both bank and non-bank participants since P2P companies do not have to hold Tier 1 capital in order to execute the transactions.

The changes that are occurring in direct banking offer intriguing alternative value propositions for both financial institutions and consumers. On the one hand, consumers obviously gain an enhanced level of convenience and service, but they can also benefit from more competitive pricing that will be generated from strong direct-channel competition among market participants, as has developed in the CD market. The aggregators and P2P approaches in particular will provide new financial options for the unbanked and underbanked as well as for customers who are interested in interacting in a different way. From the financial institution's perspective, direct banking developments can offer new opportunities to improve margins both by shifting less profitable customers to lower-cost channels and by providing additional value to the most profitable clientele. The savviest companies will also find ways to leverage direct channels to increase their sales from service effectiveness by better using information and tools and by interacting with customers more often in real-time.

### Responding to the Rapid Evolution of Direct Channels

Shifting customer preferences and behaviors are accelerating the expansion of direct banking, which is developing in many forms. To respond to the rapid evolution of direct channels, banks may want to take several actions:

- **Upgrade the service attributes of their existing direct channels:** While Web site availability, page-load speed, call wait time, and drop rates all need to be improved at most banks, the majority of effort should be devoted to better navigation and usability of existing sites, improved access and linkage to account data (within and across institutions), and the provision of richer content.
- **Improve the ability to convert remote service interactions into relationship building and sales opportunities:** Traditional direct players and recently some banks, have been very good at making this conversion, but banks need to enhance their customer tracking, predictive quantitative tools, on-line chat capabilities, and the supporting human capital initiatives to capture this category of near-term improvements.
- **Invest to create greater sales capabilities and capacities on Web sites:** There is a significant gap between what can be executed today on a robust financial-services Web site and what can be done on a typical bank site. We anticipate that enhancing customer-facing site attributes, as well as aligning the supporting operations and IT applications to execute more kinds of sales, will consume the time and energy of most banks over the next three to five years.
- **Take a proactive approach to direct aggregators:** Banks will need to refine their cooperate-compete approaches with aggregators and put the tools and skills in place to effectively pursue the opportunities and manage the risks related to attracting and serving customers through these two different direct methods.
- **Experiment with select mass collaboration models:** Given the disintermediation potential of these approaches, banks should begin to selectively experiment with different models that are consistent with their customer bases, brands and operating skills.

**Roadmap to Channel Management**

The following roadmap provides detailed strategies and examples of existing channel management strategies in the marketplace.

Channel Management Strategies	Detailed Strategies	Examples
<b>Balance the relationship</b>	Focus channel development on enhancing the customer experience to develop a relationship from which banking transactions may naturally grow	<p>Redesign branch networks as destinations:</p> <ul style="list-style-type: none"> <li>• Capital One Bank and Starbucks sharing the same premises – “latte and a loan”</li> <li>• ING cafes – social networking sites with seminars on financial services</li> <li>• Umpqua Bank – offering branch facilities as networking opportunities for business and personal customers</li> <li>• Bank of America – greeters to help customers navigate the branch</li> <li>• Raiffeisen Bank – using digital displays in branches to communicate product information</li> <li>• HSBC – high-functionality ATMs to help self-service customers and distinguish them from those seeking new products</li> </ul> <p>Educate customers on financial service opportunities:</p> <ul style="list-style-type: none"> <li>• Apple stores – staff are trained to educate rather than sell</li> <li>• Best Buy – Geek squads are available to explain the technical aspects and installation challenges of any product</li> <li>• ING Direct and Commerce Bank – provide seminars in financial services and on issues associated with turning points in life</li> </ul>
<b>Sell to a market of “one”</b>	Recognize different customer segments and capture information on them across channels to understand their needs and behavior – develop product strategies accordingly	<p>Provide customers with online research capabilities. Invite them to evaluate products and publish the results to help others make better buying decisions. Incorporate feedback in new product development. Build channel, product, and operating models around customer segments like Gen Y</p> <ul style="list-style-type: none"> <li>• Best Buy – growth through customer centricity</li> </ul>
<b>Make it easier for the customer to buy</b>	Make channels work well separately and together	<p>Enable customers to research in one channel and buy in another. View channels as part of an integrated customer experience strategy. 79% of customers expect seamless purchase and delivery options across channels (Aberdeen Group)</p> <ul style="list-style-type: none"> <li>• U.S. retailer LL Bean, Best Buy, Macy’s click-to-call options link online channels with customer call centers</li> <li>• U.S. retailer Lowe’s online project planner allows customers to design their projects online, select the products they need, and seek experienced advice in the store.</li> </ul>
<b>Enable channels to help each other</b>	Use signs consistently within and across channels to help customers navigate them more easily	<p>Giving customers clear directions on where to find what they want, not just within channels, but between them</p> <ul style="list-style-type: none"> <li>• ING Direct – provides simple and clear directions on its Web site on the channel options available and how to access them</li> <li>• Royal Bank of Canada – page on Facebook provides clear directions to the Gen Y segment on how to get help on financial services.</li> </ul>

**Roadmap to Channel Management - Continued**

Channel Management Strategies	Detailed Strategies	Examples
<p><b>Improve the revenue opportunity</b></p>	<p>Manage channels based on revenue opportunity</p>	<p>Banks must focus on value per square foot within branches and in aggregate within markets. Branch locations should reflect realistic local market opportunities. Direct channels should reflect market opportunities and product economics</p> <ul style="list-style-type: none"> <li>• Jyske Bank manages customer traffic within the branch between the Ask Bar, the Money Bar and the Coffee Bar</li> <li>• Regions Bank has a branch consolidation program focused on customer density models in each branch market to assess long-term branch viability</li> <li>• Direct channels for Gen Y – mass-market distribution of simple, practical, and affordable products</li> </ul>
<p><b>Develop channels based on customer segments and needs</b></p>	<p>Develop new channels to more fully pursue customer touch-point opportunities</p>	<p>Creating new touch points with customers provides an opportunity to expand the relationship and enhance the customer experience, but new channels must be carefully targeted to add value</p> <ul style="list-style-type: none"> <li>• Leverage mobile sales forces (financial advisors visiting customers at home) – mass affluent model</li> <li>• Gen Y financial counselors visiting Gen Y on campus – mass customization model</li> <li>• Aggregator models like Lending Tree as low-cost distribution vehicles</li> <li>• U.K. retailer Tesco's, Sainsbury's and Marks &amp; Spencer as distribution channels for financial services</li> <li>• Develop mobile banking, recognizing the broader opportunities for integrating with mCommerce and monetizing entertainment opportunities, e.g, paying for video clips, music downloads, etc.</li> </ul>
<p><b>Exploit convergence between different channels and industries</b></p>	<p>Explore shared channel opportunities</p>	<p>Shared channel opportunities provide at least two clear benefits: they enhance the customer experience by allowing the customer to do more within each channel, and they help banks defray the costs of channel management</p> <ul style="list-style-type: none"> <li>• North Shore Bank – created mini branches alongside gas stations to allow customers to do basic banking as they fill up with gas</li> <li>• ING Direct – offers merchandising opportunities for clothing on its Web site</li> <li>• Citigroup and 7-Eleven - offer Citigroup ATMs in 7-Eleven stores</li> <li>• Orange and SNCF (French Railways) – teamed up to provide ticket purchases on trains through mobile phones as contactless payment devices (mobile banking)</li> <li>• Shared channel opportunities within banking, such as Wachovia putting brokers into branches</li> </ul>

**Roadmap to Channel Management - Continued**

Channel Management Strategies	Detailed Strategies	Examples
Champion the customers' values	Develop a community and wider social agenda	<p>Customers recognize the importance of community and social values and many industries are responding to champion these issues. Financial services examples include:</p> <ul style="list-style-type: none"> <li>• American Express Members' Project – card members recommend good-deed projects approved by a celebrity committee</li> <li>• Citigroup – championing micro-financing in emerging markets</li> <li>• Bangor Savings – pictures of local Maine fisherman in its new Portland office</li> </ul>
Enhance the brand	Integrate brand management across the channels to create a different customer experience	An explosion of channels makes brand management difficult to achieve. As new channels are inevitable for banks, integrated and balanced management is essential to protect the brand. Examples include Best Buy, LL Bean, Apple, Lowe's, and Leap Wireless.

## Channel Integration and Improvement: Bringing It Together

In the future, customer needs and preferences will increasingly drive the integration of all types of banking channels in the U.S. Generational preferences suggest that tech-savvy Gen Y and Gen X customers will demand the ability to fluidly switch back and forth among channels, using a mix for interactions around the same sales or service event. They also expect improved cross-channel experiences similar to the ones already offered by retailers. For instance, consumers today can get a coupon in the mail from Best Buy, research the product online, purchase it online, pick it up at a store the same day, and get after-sales service by phone or e-mail. Few, if any, banks can deliver that kind of cross-channel experience today if a customer, for instance, would want to purchase a prepaid debit card for a trip.

Thus banks should be seeking to accelerate their steady progress toward greater levels of integration and more proactive approaches to meet customers' cross-channel needs. The situation can be framed better in terms of four levels of engagement with customers. The first, service-level integration, is where most banks are today. This level is almost entirely reactive, where a customer phones a call center and inquires about her account. Today, customers minimally expect that bank employees have at least the same level of information as they can access online themselves. The second level of integration adds a proactive behavior to the customer experience. The customer-service representative offers customers an additional product or service while assisting them with their initial inquiries. For example, financial institutions are finding that proactively chatting with customers while they are researching online drives value. The third level involves totally integrated channels, resembling the models employed by U.S. retailers such as L.L. Bean. With total channel integration, customers can research a product or service online or in a catalog and then phone in the order to a call center that has the customer's preferences and buying habits stored in a database. In an integrated model, customers can easily skip from one channel to another to make their purchases.

The final, or fourth, level integrates and organizes the channels and business systems around specific customer segments. This level is reflected in the operations of U.S. retailer Best Buy, which has not only fully integrated its online call center and store operations but also has designed its Web sites and stores around specific customer segments. For example, a customer can phone a call center to obtain product information, order a product online, and then pick it up in the store. Within the stores,

there are sections dedicated to different types of customers such as computer novices and audio gurus. The company's Web site also has pages that are tailored to customers' varying needs for education and information, ranging from in-depth product specs aimed at videophiles to helpful buying guides targeted toward the average consumer, which explain an entire category of products such as DVD players and DVRs. While difficult and costly to achieve due to system integration challenges, many progressive institutions have launched initiatives to improve channel integration and to become more proactively customer-focused by investing in infrastructure, applications, and talent necessary as well as training customers to encourage their adoption.

Some potential developments in channel integration include Internet and telephone banking kiosks that facilitate routine transactions and demonstrate online banking functionality; webcams and interactive televisions that connect branch customers in real time to product specialists in central locations; and next-generation integrated CRM software and shared customer data, similar to call center applications and databases, with prompting and scripting functionality to support face-to-face branch sales interactions. Banks are also starting to take advantage of standardized workflow technology that supports the integration of Web, phone, mail, and branch sales and service events by capturing various customer interactions wherever they occur.

Banks can gain a lot from improving their channel-integration capabilities, which often requires integrating their back- and front-office systems. Transitioning to more seamless IT platforms can provide banks with the highly vaunted "single view of the customer," which holds the key to enhanced customer service and improving the effectiveness of cross-selling activities. Many of the major international banks are already moving in this direction while many U.S. banks are hesitating because of the "hermit crab" dilemma: while they know they need to move to a new shell, or core IT systems, they also know that they are most vulnerable — at risk of losing customers, missing revenue growth, and profit targets — when they leave the old one and head out across the sand. But customer and competitive pressures are intense and many banks may be forced to make a dash for it, whether or not they are comfortable with the prospect.

## Implications for Banks: Good News or Bad News?

Banks can take advantage of the current inflection point in the evolving distribution landscape by pursuing certain opportunities and projects before their competitors do. Like Toyota's growth from being an early distributor of hybrid cars, enterprising banks and non-banks alike have an opportunity to capture a whole generation of consumers as the game changes irrevocably.

Yet most institutions today are underestimating the magnitude and timing of the impending shift and are acting slowly, if at all. A common conundrum for many is determining when and how to make their moves. Should it be done in small incremental improvements or via major leaps of change? There is also the challenge of balancing the need to improve all three channels with the need to integrate them. While cost is an obvious inhibitor, a main constraint is lack of human resources to envision and execute the change. Also, the major players perceive themselves to be winning under the rules of the old game; therefore, they see very little reason to accelerate the shift to cannibalize their existing retail banking franchises.

The future will require the continuation of incremental progress on multiple fronts but it will also require some bold strokes and actions. Which routes to take and how a bank might assess its potential depends upon its present market position and current set of assets. Clearly U.S. national bank with thousands of branches will react differently than a national bank that has a strong brand but limited branch network. Similarly, a community bank will respond differently than a non-bank competitor that is seeking to take away market share from existing banks. While the options may seem overwhelming at first, the basic course of action is straightforward: start somewhere in each of the three channel types and do it sooner rather than later. Those that react too slowly to this inflection point will fail to attract the attention and the assets of the next generation of bank U.S. customers, which is poised to be the wealthiest in history.

The situation is akin to turning an aircraft carrier. The decision to head in a particular direction must be made several miles ahead of the actual turning point because of the ship's mass and momentum. While you probably don't have to do something immediately, the size and scale of most retail banking institutions demands considerable forethought if the company is to alter its course in time to respond wisely to the compounding influences of these powerful market forces. Fortunately, the game isn't about precision this time. Simply setting a reasonable course and heading in the right direction on any one of these trends can go a long way toward positioning your organization to capitalize on the approaching waves of change in retail distribution rather than getting overturned by them.

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## About the Center

The Deloitte Center for Banking Solutions provides insight and strategies to solve complex issues that affect the competitiveness of banks operating in the United States. These issues are often not resolved in day-to-day commercial transactions. They require multidimensional solutions from a combination of business disciplines to provide actionable strategies that will dramatically alter business performance. The Center focuses on three core themes: public policy, operational excellence, and growth.

To learn more about the Deloitte Center for Banking Solutions, its projects and events, please visit [www.deloitte.com/us/bankingsolutions](http://www.deloitte.com/us/bankingsolutions). A special thanks to Creative Access to Communication Services, Inc. for assistance with research and analysis.

## Endnotes

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## Center for Banking Solutions

### About the Center

The Deloitte Center for Banking Solutions (the "Center"), located in New York City, is part of Deloitte & Touche LLP and was formed to further research on and develop solutions to solve complex issues that impact the competitiveness of banks operating in the US. Don Ogilvie, former president and chief executive officer of the American Bankers Association (ABA) for two decades, is the Independent Chairman of the Center. To learn more about the Deloitte Center for Banking Solutions, its projects and events, please visit [www.deloitte.com/us/bankingsolutions](http://www.deloitte.com/us/bankingsolutions).

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