More and more customer transactions are migrating from the counter to other channels such as the phone and internet. HAZEL REID examines the trends that are revolutionising the traditional bank branch.

Counter cultures in your branch

Banks expect to see an 11% fall in the number of financial transactions processed over the branch counter in the next two years as more business is done over the internet, phone and automated machines (ATMs). More dramatically, they also forecast that more than four-in-ten transactions will shortly be completed online.

There's a hidden challenge in these statistics, though. The trend away from our traditional 'counter culture' is unmistakable but, so far, it's largely been the easiest transactions that have been migrated. The so-called 'second wave' of migration now involves more complex transactions – and more resistant customers.

Recent research by financial services benchmarking and best practice advisory company, Finalta, with the European Financial Management and Marketing Association (Efma), analysed current and planned migrations. Over 60 banks provided data, supplemented by in-depth interviews with senior executives.

It shows that nine out of ten transactions are already being completed off-counter – with online, mobile phone and self-service ATMs each accounting for roughly a third of usage. The biggest growth, Finalta forecasts, will be in online traffic: by 2012, those transactions will rise to 42%.

"Further migration to other channels is clearly going to have a significant impact on the branch networks of European retail banks," says Finalta's director, Christine Johnston. "This will reduce branch resources as they drive more and more transactions to other, more cost-effective channels."

What banks now need, she adds, is a clear roadmap for handling the tougher "second wave" migrations. These include foreign exchange transactions (such as Euro-Dollar), complex deposits and small business transactions such as high value coins, notes and cheque-cashing.

Some banks are already well ahead, with only those transactions deemed truly "non-migratable" retained at the counter. These include those that can't be processed by self-service machines for legal reasons, or enquiries with an implicit sales opportunity (such as a change of address).

Banks have reduced teller headcount, with some now taking the opportunity to trial hybrid seller-tellers for non-regulated products. But to date, only a quarter of banks surveyed have reached this most advanced stage in which less than 15% of transactions are dealt with over-the-counter.

"While most banks declare a 'general desire' to migrate transactions from the counter, the majority don't actually have a clear strategy in place to accomplish this, Johnston points out. "For many, it's ad hoc at best and a real limiting factor."

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Director, Finalta

Management buy-in is vital, she says, someone who drive the changes at executive level. "We suggest appointing a senior executive as Head of Migration or similar. This should be a dedicated role with the person held accountable for delivering the bank's migration strategy and targets.

"Often, responsibility falls through the cracks between branch and channel management. It's not top of anyone's 'to do' list and 'ownership' is unclear at the top, and right down to branch level."

Banks also need to be clear about how to handle the downsides: managing the needs of more elderly customers and those who are less likely to handle change; whether to encourage the migration with restrictions – like banning over-the-counter transactions, say, of less than £30, as some banks have done.

Four main techniques, she argues, will be key in driving transactions from the counter to other channels:

- pricing differentials, penalties and fees
- bans on specific counter transactions
- changing the behaviours of frequent transactors
- in-branch training, potentially using external trainers

"Those banks which have achieved the best success to date have empowered branch managers to direct migration efforts and conduct root-cause analysis of what could be done differently or more efficiently."

"Second wave" migration will undoubtedly change the retail branch as we know it. They'll become more sales focused, and customers will quickly demand more online transactions as the IT-savvy demographic matures.

However, this doesn't signal the end of the branch by any means. As branches become sales centres, proactive lead generation will be really important in replacing the sales opportunities previously supplied by bank footfall. In Finalta's view, network reductions will be gradual not dramatic, with a 'trimming' of branch staff (mainly tellers) and an increasing use of 'cashless' branches, with very few non-sales staff.

"Branches will be physically smaller and much more sales and service oriented with more private meeting spaces so that customers can talk confidentially with an adviser," says Johnston. "Tills will be further from the door – it's already acknowledged that you can 'waylay' people more easily if they have to walk through the branch to get to the tills.

"There'll be a different balance between cashier desks or tills and self-service machines, and there will be much more technology, with more online terminals available. This is now happening extensively in Europe. And then there may be cashless branches, with just machines and a sales adviser."