

Reformatting of a Branch as Banking Products Sales Channel in the Context of the Changes in the Custom Requirements of the Clients

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Abstract

The changes witnessed by the banks have been inspired by the changes in the consumers' behavior. Some 20 years ago, a branch was nearly the sole channel and the single opportunity for a bank's brand to be introduced to the consumer. Even today, branches generate over 90% of the sales for greater part of the retail banks, despite the rapid development of alternative channels. However, the role of a branch in the mix of channels is being changed significantly. Profound changes take place in business models, technologies and scenarios of consumer banking. These transformations are reflected by the rational arrangement of the clients' flows within branches. The object of this article is to consider certain trends in the outfitting of banking branches and their analysis based on the comparison of the banking branches reformatting program adopted by Sberbank of Russia, the largest Russian bank, with the best world experience. The article contains suggestions on improving consumer banking quality, as well as recommendations that may be implemented at the level of the banking office, or at least those that do not require complete re-engineering of consumer banking processes.

Keywords: consumer experience, Sberbank of Russia, reformatting of branch network

1. Introduction

Over the last ten years, banks in the entire world have seen more changes than over the past 100 years. Information technology and telecommunications have changed many businesses forever. The changes taking place at banks have been inspired by the changes in the consumers' behavior. Incredible as it may seem, but finance industry, that has spent huge resources on IT, personnel, infrastructure, and marketing, actually failed to keep pace with the consumer.

A branch, traditionally most profitable and, at the same time, most cost-intensive sales channel, has become the biggest threat for banks.

In this article, we expect to analyze the way the changes in custom requirements have changed consumer quality and the format of Russian banks' branches in general, and, particularly, those of Sberbank of Russia, the largest Russian bank (hereinafter- "Sberbank").

Some 20 years ago, a branch was nearly the sole channel and the single opportunity for a bank's brand to be introduced to the consumer. For example, by the start of 1988, the system of Sberbank of the USSR consisted of 15 republican banks, 166 regional, district and municipal departments, 4.1 thousand branches with 50.7 thousand divisions, and 22.1 thousand agencies.

1.1 Changes in the Consumer Requirements of Bank Clients

The competitive advantages of the large-scale branch and division network with regard to attracting deposits from natural persons are indicated in Table 1 below.

Table 1. The Volume of the Ruble Deposits Attracted by Banks from the Citizens in 1993-2001(Note 1)

The Balance of Funds in the Citizens' Deposits as of:	Total	Including			
		Sberbank of Russia		Commercial Banks	
		mln. Rub	in %	mln. Rub	in %
01/01/1993	577.4	521	90.2	56.4	9.8
01/01/1994	4,144	2,514	60.7	1,630	39.3
01/01/1995	25,939	15,231	58.7	10,708	41.3
01/01/1996	70,594	46,259	65.5	24,335	34.5
01/01/1997	118,292	86,812	73.4	31,480	26.6
01/01/1998/	146,321	115,245	78.9	31,076	21.1
01/01/1999	140,982	104,891	74.4	36,091	25.6
01/01/2000	202,783	153,912	75.9	48,871	24.1
01/01/2001	304,659	229,712.9	75.4	74,946.1	24.6

However, the role of a branch in the mix of channels is being changed significantly. Profound changes take place in business models, technologies and scenarios of consumer banking.

Speaking at the Next Bank Asia 2012 conference in Singapore, Brett King, a well-known innovator, the founder of American Movenbank and the author of the Bank 3.0, the Bank 2.0, and the Branch Today Gone Tomorrow bestsellers, used the word-combination "consumer's behavior" 44 times in his half hourly speech. It is the consumer's behavior and his habits that have the biggest impact on banking technologies than anything else.

Here is the quote from the interview of Richard Branson, the owner of Virgin Money bank, for BAI Banking Strategies: "A consumer wishes to have a choice of how to interact with a bank. Some want to have access to their account from any point of the world at any time of the day, and electronic channels are the ideal match for that. For other consumers, for instance, those buying property on mortgage, human contact is important. They would like to sit down by a manager and talk to a real human being. is the important thing for distribution channels is the ability to meet various needs of the clients, and branches play crucial role in that mix"(Note 2).

Let us think: what is left with the client after the use of a bank product? The only thing that is left with us is consumer experience. It is fine, if it is related to achieving certain financial, and, still more important, life goals. It is a bank that can assist in achieving goals. Everybody knows that the client is not interested in mortgage; he or she only desires to buy a house. The client does not need auto loan; he or she wants to buy a car. With that, the client is only told at the branch about the terms and conditions of the financial product.

Apparently, it is high time for the banks that have moved transactions to self-service to think about the value they create for clients, as well as consumer experience.

It is exactly working with consumer experience through deep understanding of the of the client's real needs that will become the most important innovation for bank branches.

The key problem that the banks will have to resolve is building trust on the part of the consumers and living up to it. Financial system has demonstrated a host of examples in time of crisis when lack of trust and light-minded treatment by financial institutions of the values so important for the consumer led to the bankruptcy of many banks. Branches have often become "the front line", where the bank's brand, the staff of the bank, met face to face with the clients demanding explanations and guarantees. (Burakov, 2014a; 2014b) Such is human nature that, despite the 24-hour opportunity to send SMS to our manager or to call a contact center in extreme situations (when, in the client's opinion, there is a threat that the bank may fail to fulfill its obligations) we wish to communicate with a living being. Branches of the banks have become the proof of the banks' reliability. It is a very expensive proof, but no more expensive than trust as the core value of finance industry.

The development of new formats for branches should be started with consumer banking formats. It is incorrect to make branches first, and only then to think of how to organize service there. It is quite evident, but even today we find the requests from the banks that plan to build “branches so that clients may not come to the branch any longer and use exclusively self-service”, or “a branch for receiving commission income”. It is no secret that the share of such income will be up to 20%, and it will not be enough to pay back for the branches with high cost of rent and personnel.

1.2 Sberbank Development Strategy for 2014-2018 with Regard Changes in the Channels of Product Sales to the Clients

One of the main challenges, as defined in the Sberbank Development Strategy for 2014-2018, is the change of technologies and the models of the clients' behavior and preferences.

In particular, the document states: The radical change in technologies, first and foremost, in the field of the Internet, digital, mobile and social platforms, will bring about significant changes in the clients' preferences, their models of behavior and decision-making. This will create new challenges and opportunities for Sberbank:

- For all clients (particularly, for retail clients and the representatives of small and micro business), it is becoming critical to have access to banking services at any time and from any point wherein they happen to be, while making use of any preferable technology;
- Expectations and demands of the clients rise sharply from the point of view of rapid interaction with the bank, as well as personalized and customized offers;
- Both natural persons and legal entities expect the increasingly high level of convenience of banking services, as well as their integration with business processes and their daily behavior. Time is becoming ever more valuable;
- The speed of accessing any volume of information by our clients grows significantly. On the one hand, this makes it easier for them to compare prices and other parameters of the products. On the other hand, this leads to overloading with information and to the growing influence of emotional and reputational factors on decision-making. Development of social networks will play an important role in these processes;
- The level of skills and financial literacy of the clients grows. In particular, many corporate clients from highly qualified financial service units. They will also gain direct access to the markets of capital and financial products;
- Our clients become less uniform: all these tendencies are manifested at different speed for different client groups. This requires concurrent support for multiple models of providing services and working with the clients.

In such conditions, the traditional strengths of Sberbank (scale of business and branch network, the brand, etc.) will not be as important for the clients. The threat of losing relationship with the clients due to the not deep enough understanding of their preferences and requirements is increasing (Note 3).

In its strategy, Sberbank talks about moving transactions and the significant part of sales to remote channels, which will result in the changing role of the points of service—the branch network of Sberbank will be largely reoriented towards consultations and sales. The increase in the share of sales as to the total number of transactions carried out in offices will require implementing the respective changes in the configuration of the network, as well as in the profile and skill sets of the employees. (Burakov, 2014 c) Some of the service points will be consolidated, while others will be reformatted in line with the changes in consumer banking model. This will make it possible to support the growth of business, while concurrently increasing the efficiency of branch network.

In recent times, the following technological innovations in consumer banking in branch networks have received positive acclaim from many banks:

1) Opening mini-branches in supermarkets, passenger terminals and other bustling areas. It is quite logical that bank branches must be located in places with large traffic of potential clients.

It is in the shopping malls that banks in Japan and Singapore strive to open their branches. In retail surroundings, consumers are inclined to spend their money and time with pleasure. If a bank is able to fit into this scenario of behavior, consumption situation, the opening of a branch in a shopping mall will be justified. The cost of the rent is extremely high, and one has to save on the floor space, but it is important in principle for banks to have branches in such locations. UOB bank in Singapore would not open branches for affluent clients on the ground floor, but

would place them in one line with luxury boutiques. OCBC, DBS and Citibank would do the same. Branches for young Generation Y clients are opened in university campuses and entertainment centers.

In August, 2011, Sberbank opened the additional office of the new format in the Golden Babylon shopping mall on Prospekt Mira in Moscow. Upon reformatting, the area of the additional office has increased from 72.8 sq. meters to 257.7 sq. meters, and the number of staff grew from 10 to 17 persons. In addition to traditional products, the renewed office can now offer deposit safe boxes to the clients. For the companies located in the shopping mall, additional services include night safe boxes and collection service.

Citibank opens transaction branches right at subway stations, where queues regularly line up in front of the ATMs;

2) Further development of mobile branches to cover hard-to-reach and sparsely populated areas and entertainment events;

3) Radical change of the branches' design to make them look like brand-name cafés or membership clubs;

4) Placing compact temporary offices (kiosks) that can be easily disassembled and relocated;

5) Creating conditions and motivation for self-service at the branches with the respective technical outfit;

6) Connection of branches to the unified database within the CRM system; IP-telephony (Note 2).

Many major banks have already opened "flagship" (pilot) branches of the new type. The main features of such branches are as follows:

1) Reduction of the occupied areas by two or three times (although the useful area for the self-service zone increases). Banks tend to provide greater functionality using smaller areas. This issue is addressed by rational organization of client flows, work stations and functional modules, by using unified equipment. There are several gimmicks how to make a bank more interesting for the client without increasing (but even reducing) the area of the branches. In the developed markets, designers will more often allocate maximum space to the greeting and waiting zone. It is important to allow visitors to get adapted to the branch atmosphere, to show the brand at its best and to prepare the client for communication with the manager. Some banks even lay out the route of the client's visit for the client to spend certain time in the waiting zone just enough to receive a number of the brand communications and only then to start negotiations or transactions. The client does not feel the waiting time of 5 to 6 minutes, if this time is spent with interest and at a profit for the client. Taking care of comfort and creating dedicated waiting zone is only one element of organizing the work of the office and inter-office logistics. There are several alternative concepts of organizing the office. First of all, it is single electronic queue and "universal operators", with the skills set to perform all available operations or the strict zoning of the office that will divide it into self-service zone, standard transactions zone, companies serving zone, cashier, and the standard "banking counter". The principal solution will ultimately depend on the bank's strategy, the centralized decisions taken as IT infrastructure and on the format of that particular office. However, let us recall the main rules: the client should be informed, he should manage the process (as much as practical), and should not wait twice. This means, in particular, that in the majority of cases the client should find his way to the right window without the help from the consultant;

2) Installation of multi-functional ATM-kiosks capable of issuing smaller denomination bills and accepting cheques and cash;

3) Access to free Wi-Fi;

4) Focus on the educational role of the branch: employees acting as consultants, educating interactive media-stands and training on the screens of the terminals;

5) Instant issuing of ,debit cards (and credit cards in the long run) by specialized devices;

6) Experiments with the design of branches: from avant-garde and café style to formal classical format;

7) Substitution of multifunctional large-screen terminals capable of performing up to 90% of the cashier and payment transactions for cashiers;

8) Provision of work stations for video conferencing with remote personnel.

3. Problems of Russian Banks Branches

Despite active introduction of the new format of branches in the banking sphere, problems at the offices still remain, and the reality is far from the ideal beliefs of the clients as to the quality.

The queue is number one problem. Talking about a bank's office in a big modern city, one cannot but recall the traffic, its permanent problem. The problem of rush hours and bottlenecks is not uncommon even for banks. In addition to higher loads on the office related to the end of the working hours, which are apparent to the naked eye

(for example, after 17:00) or public holidays, there are specific loads related to the location of the office. For instance, the lunch break time (from 12:00 to 15:00) may turn out to be “harder” for an office in the center of the city, but, at the same time, it will not stand out from the monotonous life for an office located in the dormitory suburb. Hence, the uneven load on an office is the problem of a bank, as it requires nonstandard solutions that will take into account the specific issues of certain offices.

Getting back to transit situation in big cities, it is necessary to emphasize the problem of work schedules for the branches of the bank. If the bank serving clients till 19:00 is quite normal for a small town, for megalopolises, the end of the working day at the bank at 21:00 is not the latest time.

If a bank has implemented the electronic queue system (it has been implemented in the majority of large additional offices of Sberbank), or the applied software allows to account for the visits according to their purposes and to fix time, measurements will turn out to be more accurate and detailed. In this case, it will be possible to calculate both the number of clients visiting the branch with a particular purpose and the time elapsed from the moment the client has got a “ticket” until the moment the actual service of that client began. It is possible to analyze the time of providing service for a particular purpose by every employee and to nominate “leaders” and “outsiders”.

We propose to review some of the ways to manage queues, the proper set of which will allow to improve the service efficiency:

1) Making appointments with the clients for a specific time. However, it will not be reasonable to make early appointments for all lines of service. “Quick” transactions (card/deposit/account replenishment, etc.) will be served faster on a first-come first-served basis, because otherwise the late arrival of the client will result in the significant shift in the service schedule and the unwarranted downtime of the teller, etc. It is effective to make appointments for lengthy transactions; therefore, appointments are widely used primarily for accepting various loan applications of the clients. It is a lengthy transaction, and in case of the client’s late arrival (for over five minutes, for example) the specialist may switch over to perform other (“fast”) banking operations. For that, the bank should envisage classification of all operations into “fast” and “lengthy” ones (except for those performed according to the time schedule, for example, besides loans, opening a deposit is a lengthy operation, too).

2) Increasing the number of staff at the branch during rush hours. As rush hours are different for various lines of business, it would be of interest for different branches to allocate employees (experts) working to schedule in several branches, for example, from 9:00 to 13:00 in the center of the city, and from 17:00 to 21:00 in the dormitory suburb. The specific schedule could be worked out based on the analysis of rush hours at the branches and the employees’ preferences.

Another possible option may be a video conference room with an expert’s connection. Using this approach, a consultant may communicate directly with the client following the instructions of the remote expert. In this case, the expert will be able to control and direct the consultant’s work (in video communication mode, as well as owing to the control functions available in the software).

3) Informing the client about the possible wait times according to the statistics of the office, both in the office and the bank’s website. Statistics is built on the basis of the data from the electronic queue system, as well as from the systems used to perform banking operations or the data received from measurements of the clients’ flow in the office or a group of offices, when it is not possible to build statistics on the basis of the data from electronic systems.

4) Customer banking in any office within a residential community. Most of the banks will not limit the client’s operations by tying him in to one office. The service allowing the client to choose a convenient office near his home, work, the visited shops and the like (search for an office closest to the indicated address) may also become a favorable option. Such service should be easily accessible both via the Internet and mobile applications.

5) Reminding the client in advance as to the forthcoming loan repayments, the necessity to present documents, etc. Early notification in conjunction with the information about the statistics of the office load will make it possible for the client to better plan his forthcoming visit to the bank.

6) If the number of staff and floor space allow, the first solution should be division of flows of the regular bank’s clients and the clients who came to the bank for one-off transactions, such as wire transfer or currency exchange. The second solution is as follows: the client who came to ask for a complicated product should see the consultant first, not the teller. The third solution is this: VIP clients should know right away what privileges they are entitled to in the office (being served on a priority basis out of turn, dedicated counter, separate waiting zone, etc.), and how they can make use of such privileges.

It may seem that the problem of the queue may be resolved by the self-service system, including the ATMs and terminals installed in the branches. However, the rule of thumb is that a sufficient number of clients have conservative approach to technical devices and prefer to bank in traditional way, that is, through a teller. Resistance to change—this is how such factor is defined in psychology. Now then, we are faced with the second problem that needs to be resolved when organizing work at a bank's branch. It should be noted here that even the clients who have successfully overcome the psychological barrier of innovations are sometimes far from being familiar with all functionalities of this or that device. That is why, when thinking of all possible ways of motivating the clients to use the self-service systems, it is necessary to pay special attention to the aspect of training. It is the staff of the branch whose primary task will be to provide information support and training to the clients with regard to using on-line banking, terminals and multifunctional ATMs. Practically speaking, this task solution consists of the following actions:

— Informing clients about all possible ways in which they can do their transactions when concluding the contract. We would recommend to include a sort of a quick-reference guide into the set of documents given to the client together with the contract. We would also recommend to remind the client of each transaction that can be done without a teller at the time of performing such transaction. It should be noted that Sberbank follows the recommendations of this kind;

— Informing as to all available channels in the premises of the branch. Clients will frequently spend their time queuing up to the bank counter just without knowing that all of these transactions can be done using the self-service terminal. The respective information should be placed at the entrance to the branch, by the bank counter, in the waiting zone and right by the terminal. Sometimes, in order to sort out the functions of the terminal, the client needs assistance from the staff of the branch. Such assistance can be provided by a dedicated consultant or hall administrator. In Sberbank, special consultants have been assigned to train how to transact using the ATMs and self-service terminals;

— Informing as to connectivity to remote service. Client should receive sufficient information for him to form expectations and “not to be afraid” of remote service. Demonstration of the Internet Bank system by a manager or in the form of the automated video shown on the terminals or the temporarily idle computers is one step towards real expansion of using the system.

3.1 Implementation of the Program as to Reformatting Branches by Sberbank of Russia

In 2010, the Moscow Bank of Sberbank of Russia opened 10 offices of the new format: 2 self-service offices, 4 offices of base format, 3 offices of expanded format, and the VIP office on New Arbat. The office of the new format, the first ever for Sberbank, was opened on Tsvetnoy Boulevard on December 14, 2009. One year of operations of the new offices has demonstrated that the new format was not only pleasant and convenient for the client, but also had significant impact on the growth dynamics of the business. In the opinion of Maksim Poletaev, Vice President of Sberbank of Russia and Chairman of Moscow Bank, the indicators of the new-format office on Tsvetnoy Boulevard have turned out to be much higher compared to the average indicators for Moscow Bank. For example, the growth of deposit balances for Moscow Bank amounted to 16% on the average by December 01, 2010, and in the new-format office on Tsvetnoy Boulevard—to 30%; the balance of outstanding loans of natural persons grew by 30% on the average for the bank and by 1.8 times in the new-format office; the number of executed long-term orders grew by 1.5 times on the whole for the bank and by 8.2 times in the new-format office. The program of reformatting the Sberbank branch network was launched in 2011 with the aim of modernization and introduction of the new image.

The new client-oriented ideology of the bank's activities, the new model of sales and service have been implemented in the elaborated formats of bank offices. The new format of branches suggest basically different zoning of the premises, organized under the principle of the “open space”, creation of ergonomic and functional work stations, the use of modern external and internal design in accordance with the corporate style and brand of the bank. As a result, the offices of the bank will become more attractive and convenient for the clients, as well as more efficient from the point of view of utilization of internal space, work of the staff and organization of banking processes. The main distinctions of the new-format offices include the principle of the barrier-free service for the clients, the zoning comfortable for the clients, and the renovated design.

Along with the main formats of the units oriented to provide service to the basic mass segments of the clients, the list of new formats includes a number of specialized offices, such as small-business development center, mortgage center, mini-office, VIP-client units, mini-offices and self-service offices.

By the end of 2012, some 2,830 offices have been reformatted, and 1,500 more offices are planned to be reformatted in 2013.

In 2013, Sberbank will implement the “Transformable Offices” project. The internal layout of the transformer-office may be quickly changed at a minimum cost in accordance with the prevailing demand structure from the part of the clients. For example, it is possible to easily re-arrange the place for performing transactions into a place for consulting and sales. The first office of this type was opened in Krasnogorsk.

The “Youth Office” is still another pilot project. This project is focused on the products and services that are mostly demanded by young people: bank cards and Internet products. Such zones as “Sber-Café” and “Sber-Store” are actively used in the branches of that format. The first proven experience of that kind of the office was the one on the Russky Island in Vladivostok. Today, five offices are engaged in the pilot project (Note 3).

4. Conclusion

If branches are to become the centers of building relationships, creating consumer experience, communicating the bank’s brand, and if they are less concentrated on the sales of products, how can one calculate the effectiveness of such business? At the end of the day, branches will, more often than not, close the deals that the clients commence on-line. It suggests the necessity of the new ways to estimating the effectiveness of businesses that should be based on the understanding of the role of various channels in collective success. Effectiveness will be determined for the business in whole. Unfortunately, most of the bank branch networks are still considered to be cost centers, and many successful banks all over the world are more similar to state institutions than to the modern retail, as a rule. In practice, the principal role of a bank branch remains the same, but this is explained by old approach based on cost control. The leading retail trading companies demonstrate how exactly the relationship with the client need to be established, and show the best way of presenting innovative products to the consumer. The bankers will soon have to recognize that consumer experience will become the point of differentiation for the banks of the future.

We have tried to confine ourselves to the recommendations that can be implemented at the level of a bank office or, at least, do not require complete reengineering of consumer banking processes. In practice, as a rule, such local actions intersperse with the revolutionary changes preceded by designing the processes. To embed the standards of quality, including measurable indicators and their standard values, in the process itself, will be a long-term, but costly solution. More often than not, such changes are prepared by the multitude of local successful improvements implemented at the initiative of heads of offices.

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Notes

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