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THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

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Findings From the 2011 FDIC/NCUA Deposit Statistics

As U.S. financial institutions navigated a still-troubled economy in the past year, both deposit growth and branching activity remained stagnant, according to FDIC and NCUA statistics. In October, the FDIC released its 2011 summary of branch deposits (as of June 30, 2011), and the NCUA released its call reports of the same date. These data provide insight into the changes in branch balances relative to the prior year. Major findings follow.

Deposit growth remains modest. After a significant "flight to quality" gain following the stock market implosion of 2008/2009, deposit growth abated. Retail and small business branch based deposits grew by only 1.7% in 2011, just slightly above the 1.4% pace of the prior year.

Credit unions outperformed banks. Credit unions enjoyed significantly higher deposit growth, adding 4.3% in retail and small business deposits, compared to just 1.3% growth for banks and thrifts. Credit unions now hold an estimated 14.3% of balances in those segments, up from 14.0% the prior year.

Institutional deposits tell a different story for money center banks. Corporate, institutional, public funds and other "main office" deposit growth contradicted the branch deposit trend, growing by almost 8% as institutions parked funds to avoid stock market volatility and minimal bond yields. Including the institutional deposits, credit unions' share of balances actually declined, from 9.4% to 9.1%

Stronger economies drive faster deposit growth. Regions less affected by the economic slowdown enjoyed the highest deposit growth. Among the largest U.S. metros, tech-driven San Jose posted the highest deposit growth at 7%. Three Texas metros also ranked in the top 10 (Dallas, Houston, San Antonio; with Austin ranking well among smaller markets); as did several markets in the Northeast corridor, which was less affected *(continued on page two)*

Bancography Case Study: Retail Staffing Review

** This case study depicts a project Bancography recently completed for a bank. Due to the sensitive nature of staffing changes, the actual bank name is not revealed.*

Description of the Institution: A mid-sized bank in the $1B - $5B asset range with more than 75 retail branches (almost all are freestanding). The branch staff performs its own item capture on site with scanners. The bank did not use teller cash recyclers or teller cash dispensers at the time the study was conducted. More than 80% of the bank's branches operate on Saturdays (anywhere from three to seven hours). At its current staffing level, the bank's tellers processed 10 transactions per FTE per hour; but the bank opted to utilize an 18 transaction per teller-FTE-hour benchmark in the model.

The bank's staffing challenges: This institution had already implemented an internal staffing model, but the model was highly complicated, containing so many factors that it was prohibitively difficult to maintain and keep up-to-date. Management also wished to update some of the benchmarks and industry standards used in its model and needed assistance with teller staff scheduling.

Project plan: Bancography developed a retail staffing model and toolkit that allows easy updating of the model. Branch staffing reviews cannot be a one-time event; to truly optimize staffing efficiency, models must be periodically updated with current transaction data, and productivity benchmarks should be refined to reflect technology and process improvements. Primary model inputs included branch transaction volumes, cash volumes, new deposit and loan account volumes, current branch service requirements; as well as branch equipment, technology and configuration (for example, whether the branch includes safe deposit boxes, drive-ins, ATMs). The inputs were translated into staffing levels using efficiency standards that the bank supplied (for example, minutes per deposit account open); but where the bank lacked such data, Bancography supplied industry benchmarks. For the majority of tasks related to sales and services jobs in the branch, the model allocated FTE equivalents (for example, one teller cash dispenser = 0.5 FTEs).

Results: The model initially yielded a recommended reduction of more than 30 branch FTEs against a base of more than 400 FTEs. After *(continued on page three)*

Bancography Brand Value Index 2011

THE TOP-RANKING BANK BRANDS:

ASSETS > $30B

1. Wells Fargo Bank (CA)
2. U.S. Bank (MN)
3. Manufacturers and Traders Trust Company (NY)
4. Fifth Third Bank (OH)
5. PNC Bank (PA)

ASSETS $2B - $30B

1. FirstBank (CO)
2. United Bank (WV)
3. The Central Trust Bank (MO)
4. Union Savings Bank (OH)
5. Westamerica Bank (CA)

ASSETS $500M - $2B

1. Sabine State Bank and Trust Company (LA)
2. First National Bank Texas (TX)
3. Central Bank of Lake of the Ozarks (MO)
4. Citizens Security Bank & Trust Company (OK)
5. Western National Bank (TX)

ASSETS < $500M

1. First American Bank (OK)
2. First State Bank of San Diego (TX)
3. Valley Bank of Commerce (NM)
4. The Citizens State Bank (KS)
5. Charter Bank (TX)

THE TOP-RANKING CREDIT UNION BRANDS:

ASSETS > $1B

1. Austin Telco (TX)
2. Landmark (WI)
3. Local Government (NC)
4. JSC (TX)
5. University of Wisconsin

ASSETS < $1B

1. Complex Community (TX)
2. Freedom (PA)
3. Gwinnett (GA)
4. Actors (NY)
5. White Sands (NM)

Austin Telco, Wells Fargo, First Bank Lead 2011 Bancography Brand Value Index

Austin Telco Federal Credit Union retained its position as the leading brand among large credit unions, the only institution to repeat as the number one ranked brand in its class in Bancography's 2011 Brand Value Index. The Brand Value Index is a quantitative measure of financial institution brand strength, ranking banks and credit unions by the market value they produce in excess of what their tangible balances, market conditions and competitive environments would predict. Community-chartered Austin Telco, which serves the Austin, Texas metropolitan area, maintained its top ranking in the group of credit unions with $1B or more in assets.

Other top-ranking institutions included Wells Fargo, reclaiming the top large bank (assets $30B+) ranking it held in 2008; FirstBank of Colorado in the $2B - $30B asset tier; Sabine State Bank and Trust Company in the $500M - $2B asset tier; and First American Bank of Oklahoma in the smallest bank tier (assets < $500M). Complex Community Credit Union of Odessa, Texas led the rankings of smaller credit unions (assets < $1B).

The rankings reinforce the hallmarks of successful financial brands: generating balance growth while maintaining a modest cost of funds and achieving the superior customer service and retention levels that insure consistent earnings. The table to the left shows the top five ranking institutions in each peer group; visit http://www.bancography.com/bbvi for a complete list of top ranking institutions in all tiers.

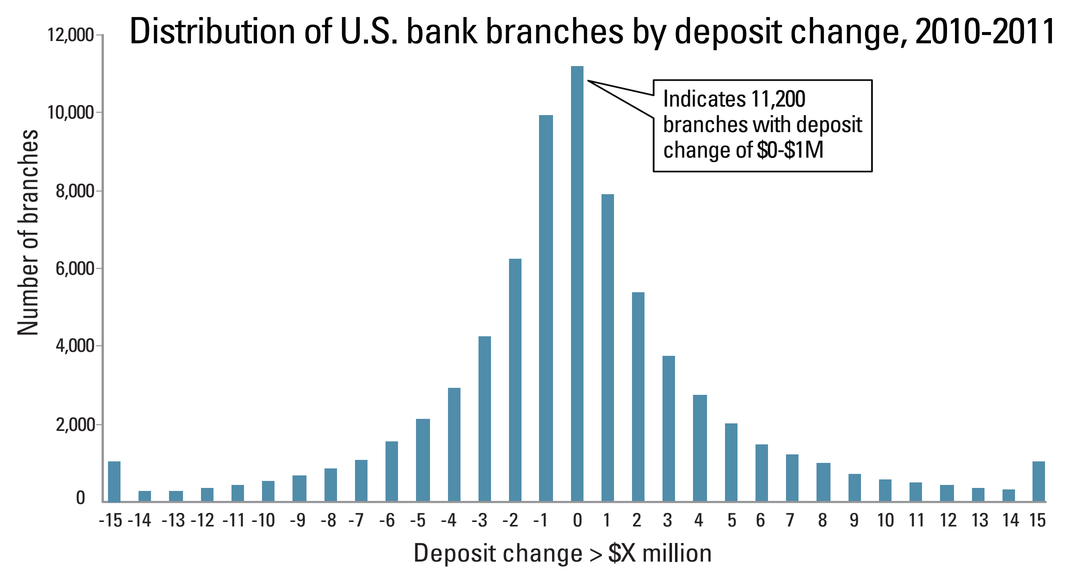
2011 FDIC/NCUA Deposit Statistics *continued from page one*

by the economic slowdown (Washington, New York, Boston, Philadelphia). Raleigh, North Carolina ranked fourth, and has ranked among the top deposit growth markets for the past several years.

The energy boom continues. Markets with abundant oil and gas resources create substantial deposit growth. Traditional oil towns such as Midland and Odessa in Texas and Lafayette, Louisiana ranked among the top deposit growth markets, as did emerging natural gas shale hotbeds such as Shreveport, Louisiana; Texarkana, Arkansas-Texas; Ithaca and Corning, New York; and Minot and Bismarck, North Dakota.

Branching activity remains modest. The inventory of U.S. branches declined by about 600 units, or one-half of one percent, to about 117,000 branches. As in the prior year, much of the decline was merger related, as institutions eliminated overlapping branches from open bank and FDIC-assisted transactions alike. But the majority of institutions stood firm on their current branch networks: of 14,000 U.S. banks and credit unions, 480 added branches in the past year and 440 reduced branches; so the branch base at 13,000 institutions remained unchanged.

Individual branch deposit goals should be tempered. The median deposit change among mature, freestanding branches in the last year was only $326,000. Twenty-six percent of branches showed deposit changes between -$1M and $1M, and half of branches hovered between -$2M and $2M. Once branches reach maturity (defined as five years of operation), incremental changes are modest.



Ending the Milk Metaphor: Branch Design, Impulse Buys and Free Checking

As branch design has evolved from the historic grand banking halls of main offices past, architects and designers have sought to develop configurations that facilitate service while encouraging sales. In support of the latter objective, many branch designs shunt the teller line to the farthest depths of the branch, maintaining that if the design forces consumers to traverse a gauntlet of salespeople and merchandising, they may purchase a product along the way. This approach has been described, repeatedly, with the grocery store — milk metaphor. Even though milk is among the most frequently purchased items, grocers place the milk at the back of the store so that while consumers walk down long aisles to and from the refrigerator cases, their exposure to other products may trigger additional purchases.

But the metaphor is inappropriate for banking for several reasons. Consumers value convenience in banking; that's why we have drive-ins, and it's also why primary research continues to find convenience of locations as the top criterion on which consumers select financial institutions. Given the premium consumers place on speed of service, it is likely detrimental to place any barriers to quick-event transactions such as simple deposits or check cashing. Rather, branch design should foster the quickest possible resolution of transactions that do not involve sales activities. True, it is beneficial to leverage the customer's visit by exposing them to promotional messages, but this can occur in the entry vestibule, behind the teller line and on drive-in pylons without lengthening the consumer's errand. To some extent, the convenience store industry — an entire industry named for its primary attribute — evolved around the fact that consumers don't want to walk all the way to the back of a 60,000 square foot store if all they need is milk. Also refuting the separated teller function is that more institutions are adopting universal agent service models, as electronic alternatives continue to reduce teller transaction volumes. Such models demand integrated rather than separated teller functions to operate efficiently.

Further, unlike in the grocery store, there are few impulse buys in banking; home equity lines are not Oreo cookies, and no one spontaneously develops a craving for one just by seeing the display in the aisle. Rather, most cross-sell occurs in the midst of customer-initiated conversations about other products, when the customer is already in a frame of mind to discuss his or her financial needs. The belief that consumers should not have to endure an obstacle course of *(continued on page four)*

Bancography Case Study: Retail Staffing Review *continued from page one*

reviewing the results with its branch administration group and discussing ground-level factors not quantified in the model, the institution negotiated a final reduction of almost 25 FTEs. As with many banks, this institution did not face an immediate need to effect severe staff reductions and had no desire to risk the damage to reputation or employee morale that such actions can bring. Accordingly, the bank is planning to implement the reductions mostly through attrition, i.e., by not filling positions vacated by resignation or internal transfer. To date, it has realized reductions of 12 FTEs. Note though, that while favorable from a morale standpoint, phased reductions lessen the current year economic benefit of staff optimization. The model also included a peak transaction report (by day by half hour) to help the institution with scheduling part-time tellers, as well as recommendations for retail support / help team staff.

Next steps: The model included a toolkit with which the institution can import new transaction files to update the model. Bancography recommends recalibrating staffing models semi-annually. The toolkit also supports "what if" modeling at various benchmark levels. This is a critical component of staffing management; the ability to ask questions such as "if we raise the benchmark to 18 transactions per hour, how many FTEs do we need? What if we raise the standard to only 16? What if we change thresholds of tellers per supervisor or the time standard for opening a new deposit account?"

An interview with the bank's director of retail branch administration provides additional insights:

What steps did you take to implement the process and the recommendations? For the most part, the implementation of the recommended staffing changes is being facilitated through attrition versus elimination. Some of the reductions occurred when staff members chose to take another opportunity within the bank or retire, but we did eliminate a few positions.

What has been the feedback from branch management? The staff is adjusting and absorbing the additional workload. There are a few small pockets of resistance that still exist; but as the Retail Help Team is developed and built out, that resistance is decreasing.

How did you communicate the staffing model results? We began at the market executive level and then these market leaders worked to get their staff's buy-in by explaining the need for the staffing model and the rationale behind it. As a team, we worked toward establishing an agreed upon FTE level for each banking center, which we then communicated via Retail Market Leaders to the Banking Center Managers. The staff reviewed the recommendations of the staffing model and returned with any questions or issues they had with the changes.

Describe the successes you have had post implementation. The project illuminated several inefficient procedures within the staffing process and has allowed the bank to focus on improving its efficiency.

What follow-up steps are in place to ensure the planned reductions occur? We hold regular meetings to ensure that the "Agreed Upon" changes are being implemented. We assigned an implementation date to each change, down to the actual individual position, and Retail Administration is keeping track of what changes remain outstanding. The staff requisition process is also being rewritten to include a review of the staffing model prior to approval of replacements or new hires.

How often to you plan to update the staffing model? Our plan is to update it semi-annually to keep the staffing recommendations aligned with current volumes.

For more information about Bancography's Retail Branch Staffing Review, contact Jamie Eads at (205) 254-3255 or *jamie@bancography.com.*

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We don't sell milk, and we're not cross-selling cookies. Let's stop designing branches, and products, as if we are.

product offers just to cash a check doesn't minimize the value of in-branch merchandising. But we should present offers in the consumer's normal footpath and not seek to extend that path solely to present more advertising. Otherwise, we're just increasing consumer aggravation, which surely does not place those consumers in a buying mood. Cross-sell is critical, but it needs to occur on the customer's terms.

Finally, the milk metaphor has another implication for banking. Milk is often advertised as a "loss leader," a product priced at minimal margin, but where profitability is predicated on the consumer bundling other higher margin items into the purchase. Bankers often price products similarly — whether free checking accounts, teaser rates on money market accounts or premium CDs — seeking to generate relationships where subsequent cross-sales can create profitability. But the cross-sell is not nearly as easy in our industry, where more than 40% of relationships include only a single product. And if the consumer doesn't buy the metaphoric candy bar, we've simply given away the base product. The difficulty of cross-sell demands we design products that yield profits on a standalone basis, and not predicate profitability on cross-selling skills that most institutions cannot prove.

We are financial institutions. We don't sell milk, and we're not cross-selling cookies. Let's stop designing branches, and products, as if we are.

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