A Quarterly Journal

BANCOLOGY

MARCH 2011 VOLUME 38

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Demographic and Competitive Trends

In the early part of the year, Bancography published its 2011 Outlook, an assessment of demographic and competitive trends affecting the industry. The full report is available at *www.bancography.com/Outlook2011.pdf*, but three trends cited in the document merit more in depth commentary.

The flight to quality deposit bump is over, and deposit growth in 2011 will be challenging as a result.
Deposit growth in 2010 (technically the FDIC reporting period from June 2009 to June 2010) was lower than at any time in the previous five years. Retail deposits increased by only 1% in 2010, compared to a 6% gain in the prior year. The 2009 jump was largely attributable to "flight to quality" behavior. This well-documented phenomenon occurs during uncertain economic times, when households flee from risky financial investments such as equities to safer instruments such as insured bank deposits or government bonds (i.e., dollars "fly" to "quality" investments in response to uncertainty in the financial markets).

In the 2009 FDIC reporting year, banks were beneficiaries of this phenomenon as investors fled a declining stock market and migrated to the safe haven of banks. Banks were rendered even safer when Congress raised the FDIC deposit insurance coverage limit from $100,000 to $250,000. But when someone moves his $100,000 retirement portfolio from a mutual fund to a CD, it represents a one-time gain for the banks. Once the portfolio has been moved, there are no subsequent funds to move the next year; just the risk to the bank that some of those funds may migrate back toward stocks as the economy settles. By 2010, the flight had occurred; so there was little left in stocks in (continued on page two)

Universal agents are most successful in branches featuring one or more of the following characteristics: recently opened; open floor plans; low transaction volumes; affluent, technology-savvy or well-educated household bases.

Is It Time to Update Your Branch Staffing Philosophy?

Industry improvements over the last few years in branch technology, interior branch design and sales training dictate that it may be time to adjust your branch staffing methodology. As many different types of employees enter the financial services industry with job functions diverging from traditional branch roles, an institution must update its branch staffing approach.

Remember, all changes instituted in the branch should place the customer's best interest at the forefront. So ask yourself, "How will these decisions affect our institution's service quality?" Bancography's market research shows service quality and convenience are the primary reasons for choosing a financial institution. Deploying the right staff in the right place at the right time will always remain a key factor in keeping service quality at an acceptable level.

Benchmarks and new branch technology

Most institutions adopted retail staffing benchmarks 20 or more years ago, and many have never updated or challenged those benchmarks. For instance, a 15 transaction per teller FTE per hour benchmark might have been appropriate in 1991, but today's current industry benchmark is considerably higher due to changes in processing systems and equipment.

Today, teller productivity typically ranges between 18-25 transactions per hour per FTE. It is critical to periodically compare your institution's productivity standards with industry norms or best practices and update your internal models to reflect any adjustments.

Be sure to also consider new technologies that have been implemented in the branches, such as TCRs (teller cash recyclers) or TCDs (teller cash dispensers). These two teller-efficiency technologies should reduce the required teller FTEs. If the institution has not adjusted teller staffing, it renders the capital expenditure on new efficient technologies pointless from a cost control standpoint, even if still beneficial from a speed-of-service perspective. Consult with the vendors supplying the new technology to your institution for guidance as to the standard FTE reductions that peer institutions experienced.

Dual branch management

A trendy expense control option that many institutions with larger networks employ is assigning one branch manager to two closely clustered branches. Pursue this option with caution. Dual branch management works best with a hub and spoke branch environment. A hub branch represents the larger office, offering more comprehensive financial services including mortgage, small business lending and wealth management. A spoke branch is smaller and oriented more toward transactions and basic deposit account sales; it sits within relative proximity of the larger hub branch. For dual branch management to succeed, the assistant manager or primary sales representative of the spoke branch should be a senior person in that role; a manager-in-training with the authority to approve most (continued on page three)

Demographic and Competitive Trends (continued from page one)

terms of discretionary household investments likely to flee. Anyone not scared out of the stock market in 2008 would be unlikely to suddenly fear the market in a recovering 2010 economy.

With aggregate income levels flat due to high unemployment and stagnant salaries, there was little additional disposable income to create deposit growth. This plus the end of the quality flight left deposits growing at a paltry 1% in 2010. In 2011, banks will face a recovering but still troubled economy and competition from a reviving stock market that will draw funds out of the safe but low yielding FDIC-insured environment.

This indicates deposit growth in 2011 will be far closer to the 2010 level than the 2009 level. For banks or credit unions to prosper in this environment, they must rigorously pursue customer retention and introduce aggressive marketing campaigns, since most depository growth will occur only at the expense of competing institutions.

For banks or credit unions to prosper in this environment, they must rigorously pursue customer retention and introduce aggressive marketing campaigns, since most depository growth will occur only at the expense of competing institutions.

The level of deposit growth in a market is directly dependent on its employment level. Six states experienced declines in total deposits between 2009 and 2010: California, Nevada, Utah, Arizona, Florida and Georgia. Four of those states – all but Utah and Arizona – ranked among the six bottom states in terms of employment. In fact, California, Nevada and Florida suffered the largest deposit declines and ranked as three of only five states where unemployment exceeded 11%. The top four states in terms of FDIC bank seizures over the past four years are also all high unemployment states: California, Florida, Georgia and Illinois.

Conversely, high employment levels translate directly into higher deposit growth. North Dakota and Montana were the only states where deposits increased by more than 5% last year. North Dakota also had the lowest unemployment rate in the country, under 5%, and Montana ranked among the top 10 states in terms of employment with an unemployment rate below 7%. South Dakota, Vermont, New Hampshire, Virginia and Oklahoma all performed similarly, with deposit growth above 4% and unemployment below 7%.

The correlation between employment levels and deposit growth shows how quickly cash reserves, in the form of checking and savings products, can be drawn down when a household faces job loss. For institutions in regions where high unemployment persists, deposit growth expectations should be tempered. And for institutions considering acquisition, the correlation implies that a market's economic health is at least as important as the franchise quality, earnings consistency and management strength of the target institution. Only balance sheet growth can offset the premium an acquirer would pay to purchase an institution.

The municipal sector has provided a key stabilizing influence on employment and deposit levels, and any reduction in that sector could prove harmful to financial institutions in affected markets. There are 102 metropolitan areas in the United States with population of at least 500,000. Among all these metros, the four fastest growing markets in terms of deposit growth over the past year were all state capitals: Raleigh, NC; Jackson MS; Oklahoma City, OK; and Harrisburg, PA. Five other state capitals, in addition to the nation's capital Washington, DC, ranked among the top 25: Austin, TX; Little Rock, AR; Boise, ID; Denver, CO; Des Moines, IA; and Madison, WI.

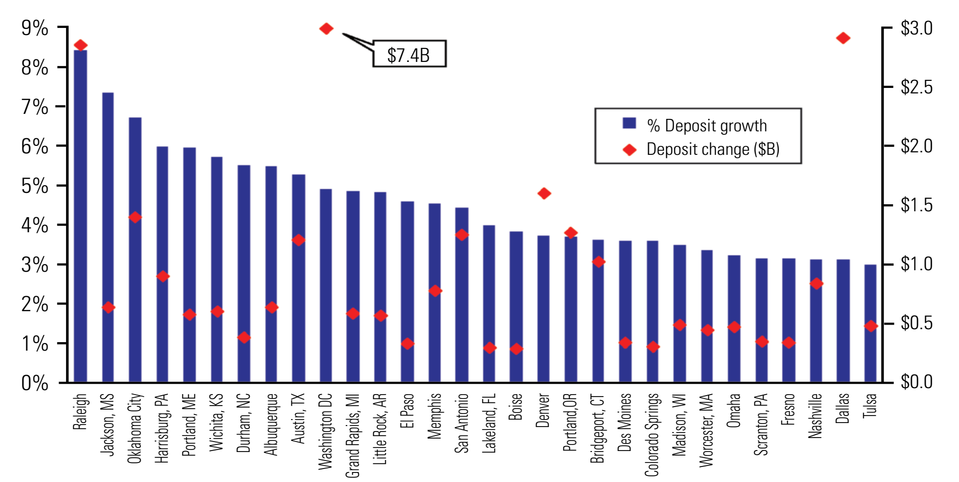
As noted above, there is a direct correlation between employment levels and deposit growth. At a time when the private sector was shedding jobs aggressively, many public sector agencies maintained their employment levels. Many capital cities are also home to major state universities (e.g., Raleigh, Austin, Madison), and higher education institutions have also been slow to reduce staff even in economic downturns.

For banks and credit unions, this indicates state capitals as an attractive market with a stable base of employees, many in white collar positions. While no market is recession-proof, those markets with strong municipal employment bases appear at least to be recession-resistant.

And although small markets were beyond the scope of the study referenced herein, previous studies have confirmed that similar benefits accrue in towns with major military bases (many larger military bases are in the smaller communities that were below the threshold for the study). The implication of state capitals and military towns as markets less likely to experience a deposit downturn carries a cautionary note. Many states are facing unprecedented financial crises and are considering their first-ever widespread layoffs. Further, long term pension obligations are also threatening the health of state budgets. And, the periodic realignment of military bases can quickly transfer numerous military personnel and civilian contractors out of one market and into another. Thus, if your institution's branch expansion, acquisition or deposit growth strategy is predicated on continued high growth in municipally-dependent markets, be sure to confirm the underlying health or tenure of the supporting institutions – governmental, academic or military – before committing to the investment.

DEPOSIT CHANGE (%)

Top 30 MSAs among all metros with population > 500,000



Get Out of the Zone: Put Your Branch Experience on the Right Path

Take a look around one of your typical branch lobbies. What do you see? Hopefully a nice-looking, warm and inviting space conducive to conducting business. That would be a good start. But is it enough? We think not. Your brick and mortar network represents a sizable investment, and if you plan to continue justifying that expense going forward, you need to boost production. No longer can you simply provide a convenient place for transactions, as in-branch transaction volumes have been declining for years. Your retail space needs to work hard, feature areas of concentration, offer easy navigation, and most importantly, sell all the time. It's a tall order, and one not easily delivered without a little strategic planning on your part.

Let's start with the overall environment. You probably think of your lobby as one big room. Perhaps from a physical standpoint it is, but you need to narrow your view into a smaller perspective. Think of your lobby as your house. Technically your house is one place or structure, but it includes a number of rooms, each with a purpose. It starts with the entry or foyer. From there, the rooms unfold in a systematic pattern relating to form and function. You should think of your lobbies the same way, even though the form and function might all take place in one contiguous space.

The zone concept of subdividing your lobby area into individual points of contact is not a new idea. You may have seen approaches that carve up the space into specific activity-based areas such as: the welcome zone; transaction zone; relationship zone; product zone; relaxation zone; and promotion zone…to name a few. There are certainly others including a community zone and even a buying zone that sells branded merchandise.

The zone concept is valid, and it makes sense. If you could execute the zone properly, it would make your guests more comfortable in your "home." And of course, hopefully, then they would buy more. Unfortunately it's difficult to make the leap from conceptual ideas to execution in confined areas and to distinguish one zone from another. Many of these zone recommendations end up in a notebook on a shelf, never to see the light of day, because branch facility officers can't visualize them taking shape within their network.

The zone approach doesn't always work because it isn't fluid enough. Despite the fact that a zone doesn't sound as rigid as a "room," it still represents any continuous area that differs in some respect, or is distinguished for some purpose, from adjoining areas, or within which certain distinctive circumstances exist. That just doesn't always happen in a lobby, right?

So let's get out of the zone. And onto the path. That's right, the path. An orchestrated journey through the branch that greets guests and gently steers them through various points of contact while assisting, servicing and selling. An engagement path strategy that contributes to a memorable experience will separate your brand from the competition across the street that offers only a lobby and a teller line.

So how do you build a path and keep people on it? Fortunately a path can be defined by many components. Guide points can be merchandising, furniture, environmental graphics, architectural elements, directional signage, millwork, flooring materials, product displays, technology stations and any kind of dwelling point device that engages the visitor. The beauty of a path is its range: from simple to complex, short to long, straight to winding.

A path removes the confines implied by zones. The amount of space isn't an issue. Where one zone meets another isn't an issue. If you don't offer a particular zone, the relaxation zone for example, it isn't an issue. Instead of focusing on what people do in a zone, you can now focus on how you treat them. Plan how you greet them. Understand where you need to assist them with information and service. Think about how you would like to engage them in product education. And where you might place that monthly promotion.

Along the path, branch guests can be greeted, assisted, serviced and sold…all unencumbered by distinctive and restrictive zones. *(continued on page four)*

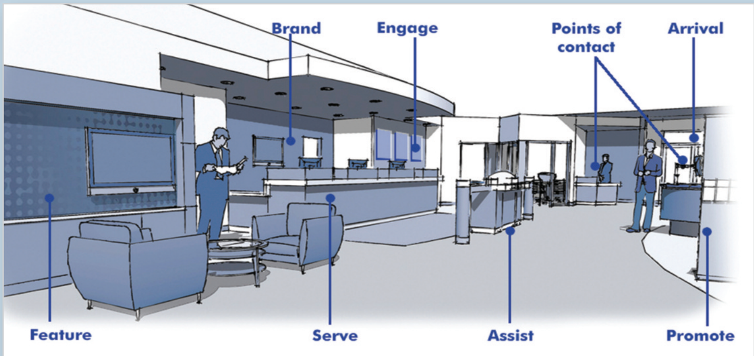


Illustration by Branch Development Group / Reilly Studios

Is It Time to Update Your Branch Staffing Philosophy? *(continued from page one)*

branch-level transactions. If this option raises concerns, keep in mind that while at one branch the manager can still use technology to maintain close oversight of the other branch. In fact, younger personnel will be quite comfortable with a management style that uses technology such as text messages for communication with their managers, as opposed to always requiring face-to-face interaction.

Incorporating universal agents

As described in a previous Bancology article, "the universal agent is a cross-trained employee capable of performing both teller and customer service representative tasks. This multi-functional employee can reduce total staff needs by filling either branch role in markets where an additional full time employee in either role is not warranted." However, several items, including interior branch design, technology and training, contribute to the successful incorporation of universal agents.

Determining where universal agents will be most effective is the first step towards integrating this hybrid employee. Universal agents are most successful in branches featuring one or more of the following characteristics: recently opened; open floor plans; low transaction volumes; affluent, technology-savvy or well-educated household bases. The presence of these features dictates where the institution should first introduce universal agents.

Modeling or determining the required number of universal agent FTEs requires a hybrid sales and service calculation that adds the overall demands of the day together. Traditional methods calculate teller and sales FTEs separately; but for universal agents, the two must be combined. Divide total transaction volume by the teller standard to yield teller FTEs; divide total new account volume by the CSR standard to yield platform FTEs; and sum the two to reveal the required universal banker complement. Also, be sure to reevaluate minimum staff levels in the universal agent model. For example, even though security and coverage issues may have mandated a minimum of 2.5 tellers and 1.0 CSRs in a traditional environment branch, in a universal agent model the same branch may require a minimum of only 3.0 rather than 3.5 FTEs to meet those security and coverage imperatives.

These topics illustrate a few of the reasons why your institution should consider updating its retail staffing methodology. Every branch's technology, design, or process investment is ultimately predicated on reducing costs or increasing revenues, whether by speeding transaction time, improving customer service, mitigating security risks or creating more time or a better environment for sales. If an institution undertakes such investments and does not update its staffing model accordingly, it likely will fail to realize the very benefits the investments were intended to deliver when initially approved.

Contact Jamie Eads at (205) 254-3255 or *jamie@bancography.com* for more information about branch staffing.

Get Out of the Zone: *(continued from page three)*

A key component to successful path navigation is your in-branch communication and merchandising. It needs to be helpful, current, coordinated, and it should provide a delicate balance of branding, promotion, product and service. In order for the customer to understand your collective marketing story, you should follow a message hierarchy and allow the messages to unfold in a logical way. Branding and communication are grounded in the elements of basic storytelling, and including disconnected chapters of isolated content will not paint a succinct picture. Refer to previous Bancology articles to read more about effective in-branch communication.

Many have written about the need for a differentiated retail engagement in the financial services industry to effectively compete in what is essentially a commodity category. The role of the branch continues to evolve and survive, despite dire predictions that emerge occasionally. The constant, however, is the opportunity to market and sell products and services. Your branches represent your best opportunity to communicate directly with your clients as they navigate your user experience.

When on a path, one is not aware of going from one point (or zone) to another. One is simply in motion on a journey. The challenge for your branches is to make the journey a memorable and rewarding experience for those who traverse it.

For an out of the zone experience contact John Mathes: *john@bancography.com* or (770) 360-5710.

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

2301 1st Avenue North, Suite 103
Birmingham, AL 35203
205.251.3227

Return service requested

Presort Standard
U.S. Postage
PAID
Birmingham, AL
Permit No. 585

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Welcome to Bancology,
a Quarterly Journal from Bancography