A Quarterly Journal

BANCOLOGY

JULY 2016 VOLUME 59

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Bancography is celebrating our 15th anniversary this year. We appreciate the support of our clients and colleagues over the past 15 years. Thank you for reading Bancology.

The Evolution of the Universal Banker Role

Over the last ten years, the discussion of implementing Universal Bankers into the retail branch has emerged as a dominant topic in the industry. The Universal Banker position saves personnel expenses by utilizing a cross-trained, highly efficient staff member who performs both sales and transactions. Fast forward to 2016, where almost every financial institution has at least started to incorporate the Universal Banker concept in one way or another. Across the industry, branch administrators have tweaked the staffing methodology to their own needs, as what works for one institution from a technical, procedural and facility perspective may not work for every financial institution. That noted, the implementation of the Universal Banker position at most banks and credit unions follows one of three variants:

Scenario 1: Cross-training

In this scenario, the institution has deemed the Universal Banker concept as warranting a test, perhaps because its competitors have already implemented the role. In response, the institution develops a job description and begins cross-training current staff members. Tellers learn the sales and service duties, and platform employees are trained to conduct transactions. These cross-trained Universal Bankers are now able to assist when excess demand on the teller or platform side dictates. However, the approach faces limits, as there are no changes to salary structures, to the branch facilities or technology, and no removal of any staff to improve efficiency and reduce personnel costs. This approach is usually pursued tentatively, with some cross-trained employees in each branch, along with a complement of single-function tellers and customer-service representatives.

Scenario 2: A full Universal Banker staff (but nothing else)

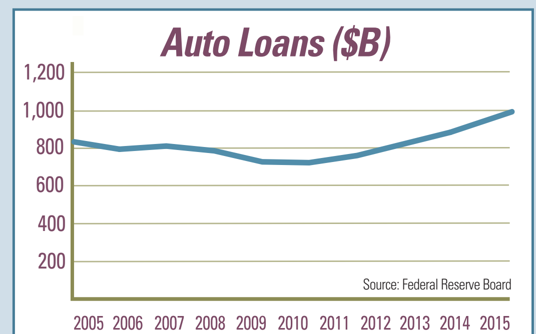
The institution running this scenario has progressed beyond the cross-training scenario and is transitioning its staff to Universal Bankers in most of its branches. However, the budget does not allow the institution to invest the necessary capital for the physical and technological changes required within the branch to fully leverage the *(continued on page 2)*

Here We Grow Again

Here we grow again…that hackneyed catchphrase seems to accompany every 'coming soon' sign on the site of a pending branch. But the phrase may be appropriate for the industry overall in a way not seen since before the recession of 2008 – 2010. Numerous statistics now confirm an economy approaching full recovery, especially in regard to demand for banking products and services.

Automobile loans represent a bellwether product. Because autos represent a sizable and long-term investment, consumers tend to purchase vehicles only when they have long-term confidence in their future earnings stream. This contrasts with credit card loans, which often rise in a troubled economy as consumers utilize credit lines to stretch income. In addition, because every loan accompanies the sale of an auto, auto-loan volume is an indicator of strength across that industry's supply chain; and from component manufacturing to assembly to transport to dealer sales, the industry carries a significant impact on the U.S. economy. In aggregate, the auto industry accounts for 3.5% of U.S. gross domestic product (U.S. Chamber of Commerce, 2015), before multiplier effects.

Thus, it is encouraging to see auto loans to consumers surpassing $1 trillion for the first time in U.S. history, a level 45% greater than at the trough of the recession in 2010.



For similar reasons, commercial loans for operations and equipment also represent a leading indicator for the banking industry. Whereas commercial real estate loan volumes can easily *(continued on page 3)*

Squandering the New Account Opening Experience

The new account opening experience provides the foundation of the relationship with the new customer. It offers one of the few opportunities where the institution holds the customer's complete attention about its product and service offerings, laying the groundwork for future cross-sell and long-term customer loyalty.

Bancography monitors the new account customer experience via internet surveys occurring within two weeks of the opening event. As confirmed by Bancography's research, if the institution treats its new account openings as transactions instead of personal, exploratory and informational introductions to the institution, the customer's likelihood to recommend – a key indicator of customer loyalty – suffers.

Customers who were least likely to recommend the institution primarily cited deficiencies in the following measures: *clear explanation of rates, fees and other requirements; cares about you and your financial needs; and responsive to your questions and concerns.* The finding remained consistent across both consumer and business customers. Failing to take the time to educate the new customer diminished trust in the employee and institution. To mitigate such incidents, sales training programs must teach employees how to deliver efficient service without compromising relationship-building opportunities.

Learn how Bancography's New Account Customer Experience survey can measure client satisfaction in your institution's account-opening process at www.bancography.com/newaccount.html.

The Evolution of the Universal Banker Role (continued from page 1)

benefits of the Universal Banker role. So, with traditional lobby sales desks and a teller line still in its original format, branch administration creates a schedule where the Universal Bankers swap days working the teller line or the sales desk. One week a Universal Banker works Monday, Wednesday and Friday on the teller line and Tuesday and Thursday on the sales desk; and then the following week, the schedule alternates.

This scenario includes a distinct Universal job description and pay grade and affords each staff member sales opportunities, while regular job rotation reinforces the cross-training investments. However, the scenario falls short of the full concept of "any staff member can help any customer with any need." The intermediate approach may include a few technologies, such as teller cash recyclers or image enabled depository ATMs, to help eliminate simple transactions; but there are still some missing pieces. Many branches under this scenario will continue to maintain traditional layers of management and operational supervision as well.

Scenario 3: The Complete Universal Banker Model

A full Universal Banker branch usually houses a manager and three to four Universal Bankers, depending on the size of the branch and its hours of operation. The branch has been configured to feature an open, free-flowing lobby with one or two offices, a conference room, two or three freestanding teller stations, and several sales desks with some level of privacy. Technological features typically include teller cash recyclers, several multifunctional ATMs and video-teller capabilities. However, the driver of success for the model is the floor plan that eliminates barriers between the teller and platform sides of the branch. This physical reconfiguration is what facilitates full leveraging of the benefits of the Universal Banker role – the ability to seamlessly migrate from teller to platform functions as customer arrival patterns dictate. In addition, with fewer total staff in the branch and less required cash handling, span-of-control issues recede, allowing all employees to report directly to the branch manager.

Although institutions should strive for the fully realized version of the model described in scenario 3, keep in mind that the Universal Banker model is not universally appropriate. While beneficial in branches where transaction demand has eroded to the point that customer-facing activities no longer consume the majority of a teller's time, in branches where transaction volumes remain robust, a traditional teller/CSR divide will prove more efficient. If transaction demand still consumes the majority of a teller's time, then converting that role to a higher paid universal banker simply raises salary costs, as that employee would spend limited time in non-transaction functions anyway. But with high-transaction branches becoming less common, the Universal Banker model enjoys broad applicability in the industry and warrants consideration in its broadest format.

High-transaction branches are becoming less common, and the Universal Banker model enjoys broad applicability in the industry and warrants consideration in its broadest format.

Revisiting the Rural Branching Conundrum

A 2006 issue of Bancology featured an article titled *"The Rural Branching Conundrum,"* addressing the difficulty of maintaining viable branches in small rural communities with stable-to-declining population bases. Ten years later, the challenges facing rural branches persist. The proportion of Americans reported as living in urban areas has increased in every iteration of the U.S. Census since 1900; and from the 2000 to 2010 censuses, the proportion of Americans classified as living in rural areas declined from 21.0% to 19.3%.

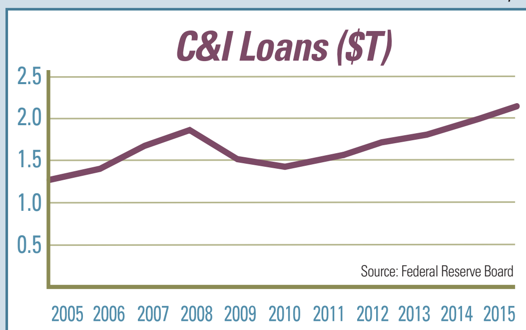
Faced with those disheartening population trends, many U.S. banks have exited rural markets. However, new technologies may allow financial institutions to maintain branches in rural communities, even if absolute balance potential remains limited. Before deciding on a strategy for a rural branch, though, it is imperative to assess competitive intentions first. Many rural towns are banking duopolies, with two resulting options: exit first, to avoid any regulatory repercussions from removing the last service option in a community; or wait out – perhaps even encouraging – the competitor's exit, to secure a larger share of the small market. With the distance to the nearest surviving branch by definition far in a rural community, retention rates will be limited when a branch closes. Accordingly, either acquiring the competing branch (or divesting yours) can prove beneficial to both the exiting and remaining institution.

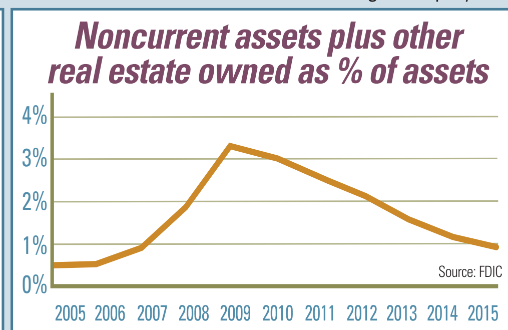
If yours is the remaining branch, consider several tactics to reduce operating costs, preserving a branch presence that often serves as a lifeline for a small community:

- > **Install teller cash recyclers and reconfigure or remove the teller line,** allowing conversion from a traditional teller/CSR divide to universal bankers and reducing staffing requirements.
- > **Eliminate direct cash-handling activities,** using interactive-teller machines driven from a centralized location to perform all transactions, including acceptance and disbursement of coin and currency. This would allow the branch to eliminate all teller staff, but maintain sales and service capacity at the branch.
- > **Reduce hours of operation** by pairing two rural branches in relative proximity. For example, if two branches sit 20 or 30 miles apart, operate one (continued on page 4)

Here We Grow Again (continued from page 1)

inflate in an overheated real estate market, loans for inventory, working capital, equipment, and other ongoing operational needs reflect the tenor of the business environment, in terms of both current production demands and confidence in the level of future demand. Similar to auto loans, these commercial and industrial (C&I) loans reached a nadir in 2010, but have rebounded by more than 50% from those levels to exceed $2 trillion.





On the consumer side, much of the revival in confidence emanates from a recovery in the housing market. As mortgage debt increased and home values eroded in the peak of the recession, owners' equity levels plummeted to 38%; i.e., of the total value of all owned homes across the U.S., 62% of that amount was encumbered by mortgages and only 38% represented net worth to the home owners. But a combination of deleveraging by consumers and stabilization – followed by improvement – in the housing markets have brought owners' equity in their homes to 57%, the highest level since 2005. The equity proportion crossed 50% in 2013, which marked the first time in six years that consumers' aggregate share of their properties' values outweighed the shares held by their lenders.

While increasing loan volumes are obviously critical to growth for banks and credit unions, those loans are valuable only if institutions can extend them without incurring inappropriate risk levels. One summary measure of credit portfolio health is the ratio of noncurrent assets plus other real estate owned to assets. This measure captures both unresolved problem assets and potential new problem assets, and thus spans the life cycle of non-paying loans. At the end of 2015, the ratio dipped below 1% for the first time since 2008, in the period before the worst impacts of the recession took hold (FDIC). Though still not at the 0.5% level of 2005, the steady improvement in the ratio confirms that banks are both resolving troubled assets taken on in foreclosure and avoiding excessive levels of new problem loans.

Individually, each of the aforementioned statistics provides a point for optimism in the industry, and in aggregate they build a compelling case that the economic recovery in the U.S. is widespread and durable. In conjunction with declining unemployment rates, the statistics bode well for growth on both the asset and liability sides of the balance sheet (see The Relationship between Employment Levels and Deposit Growth, *Bancology April 2016*) Accordingly, banks and credit unions that may have tempered growth targets during the recession should begin to ratchet up sales goals for deposit and loan products alike. Institutions that have deferred hiring mortgage, business and consumer lenders may wish to revisit those decisions, too. As the economic recovery continues to gain momentum, those institutions positioned to capitalize with appropriate staff and marketing resources will thrive, leaving those that forsake such investments well behind.

Note: unless noted otherwise, all statistics cited herein are from the Federal Reserve Board's Flow of Funds Accounts tables.

NEWS

Bancography will exhibit at the **ABA Marketing Conference** September 25 - 27 in Nashville. Visit us at Booth 309.

Monday – Wednesday – Friday and the other Tuesday – Thursday – Saturday, using the same staff pool to cover both offices. Note that this approach could prove logistically impossible beyond a certain distance between the branches.

> **Deliver all complex services such as mortgage origination, business lending and wealth management by video-conferencing with centrally domiciled officers,** with follow-up, in-person appointments scheduled as needed.

> **Relocate the branch to an in-store environment,** where the branch can leverage the utility cost savings and traffic flows of the host partner. In rural communities, the lone grocery or discount retailer is often the dominant shopping location for residents, and co-location can leverage that phenomenon.

> **If the branch is oversized, consider subleasing space in the branch** to a compatible tenant such as an accountant, real estate broker or attorney.

With rural communities carrying smaller population bases and generally lower-income profiles, branches will always face difficulty generating the revenues of affluent-market urban branches. However, with judicious attention to costs, banks can maintain the service presence that is essential to small communities without excessively burdening the institution's earnings.

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Please note our new address:
1827 First Ave. N., Suite 200
Birmingham, AL 35203
205.251.3227

Return service requested

Presort Standard
U.S. Postage
PAID
Birmingham, AL
Permit No. 148

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Welcome to Bancology, a Quarterly Journal from Bancography