

THE ART OF POSITIONING

## bancography

BRANCH PRODUCT RESEARCH BRAND

*Declining transaction trends dictate branch employee skill sets geared toward sales and service activities versus transactions.*

## Branch Productivity Benchmarks

Bankers have always found benefit in comparing branch performance against other institutions. Understanding benchmarks can help determine appropriate staff levels and sales goals. In support of such efforts, the following statistics present branch activity data from a study of more than 1,000 branches at nearly 40 institutions.

**Sales:** Because banks and credit unions employ somewhat different operating models, it is useful to examine statistics within those distinct institution types. Credit unions reported median monthly new volumes of 94 deposit accounts and 47 consumer loans per branch. Even accounting for the mandatory share accounts required to establish membership, the credit union pace well exceeds the bank median of 23 new deposit accounts and five new consumer loans per month. Interestingly, there was only limited difference in production levels by facility type (freestanding versus inline versus in-store).

little difference between the two sectors, the data presented below represent composite statistics. The relatively low salary point for universal bankers raises concerns for a job role that combines the demands of the teller and CSR functions, and bankers hoping to obtain such multi-tasking skills should likely target a salary at least at CSR levels.

### New Accounts per Branch per Month

	AVERAGE DEPOSITS	MEDIAN DEPOSITS	AVERAGE CONSUMER LOANS	MEDIAN CONSUMER LOANS
Banks	34.0	23.1	7.4	5.0
Credit Unions	126.7	94.3	59.0	47.1

**Transactions:** Reflecting evolving consumer preferences, electronic channels continue to replace branch transactions. Whereas 20 years ago most branches processed more than 15,000 transactions per month, the bank branches in the survey panel averaged only 5,600. Credit union branches show higher volumes, averaging 11,000 transactions per month, still well below the norm of the pre-Internet era. Transaction volumes at freestanding locations exceed inline and in-store locations by 35%, suggesting that smaller, spoke-style branches may orient more toward service and customer acquisition than transaction activities. Those volumes occur across typical operating hours of 45 – 50 hours per week for freestanding branches and 55 hours per week for in-store branches.

**Average salaries:** A commonality between banks and credit unions is the annual salaries for branch job functions. With

### Annual Salaries

JOB TITLE	ANNUAL SALARY
Branch Manager	\$61,500
Assistant Branch Manager	\$46,900
Branch Operations Manager	\$42,900
CSR	\$37,900
Teller Supervisor	\$34,400
Retail Support	\$34,400
Universal Agent	\$31,900
Teller	\$26,400

**Branch size:** Credit unions have historically operated from smaller branch networks, emphasizing workplace banking to accrue large account bases, and this is reflected in their greater per-branch account and balance totals in the study sample (as shown in the table on page three). Note also the greater loan-to-deposit ratios at credit unions, which rely more on branch originations and less on centralized commercial lending departments. The statistics confirm several strategic imperatives:

- Declining transaction trends dictate branch employee skill sets geared toward sales and service activities versus transactions. This trend validates the need for universal bankers in lieu of the traditional teller / CSR divide in many branches. But note that average transaction counts still outnumber monthly sales counts by a 60-to-1 (continued on page 3)

## Branch Network Optimization: a Holistic View of the Branch Network

For most bankers, new branch deployments represent the largest capital expenditure that they consider on a routine basis. However, many banks and credit unions examine proposed new branches case by case, or only in response to specific proposals from real estate developers. Such 'one-off' branch evaluations can identify whether a proposed location offers a good opportunity for a branch. But capital and operational capacity to build branches are both scarce resources. And since in most markets the spectrum of good opportunities well exceeds the resources required to pursue them, it is important to reserve investments not just for good opportunities, but for the best opportunities.

Identifying the best opportunities across the franchise requires a holistic assessment of the franchise rather than case-by-case evaluations of opportunities as they arise. A holistic approach yields a comprehensive long-term branching strategy, which brings the additional benefit of eliminating the rush analysis of the next development proposal. If an institution can build a prioritized list of long-term branching targets, it can then quickly respond to any proposals for branching consideration, further investigating those on the priority list and dismissing all others.

Bancography undertakes this process of branch network optimization using a **clean-slate approach**, considering branching strategies from the perspective of a de novo entrant, from a clean slate. Suppose an institution with your bank's target market segments and financial objectives sought to enter the Denver metro area. Where, ideally, would the bank deploy branches? Once you've determined that clean slate, optimal-state outcome you can then consider how to most efficiently migrate the branch network from its current state to that optimal outcome.

The clean-slate process should always begin with an articulation of **guiding principles**. What market segments does the institution pursue? What delivery models is it willing to employ (e.g., freestanding, inline, in-store)? What lines of business does the institution emphasize? What financial performance thresholds must new branches meet?

After confirming guiding principles, the next step in the optimization process is to **define submarkets**, i.e., all the locations within the overall market where the institution could conceivably deploy branches. At this point, the clean-slate assumption remains in place, so the list of submarkets may include locations the institution already serves – but we include those in the model, too, as the clean-slate approach can revalidate those prior deployment decisions. The definition of a submarket involves two components: a point on the map that represents the submarket center and its

associated drawing area, defined as a collection of census block groups. The breadth of a submarket, or the extent of the forecasted drawing area for a proposed branch, should be inversely proportionate to the surrounding population density. That is, the more rural the area, the broader the drawing range, the more urbanized the area, the tighter the drawing range. Note that submarkets should be defined as mutually exclusive, i.e., with no overlap in their trade areas. This prevents double-counting of demand, ensuring that the sum of demand across the submarkets does not exceed the demand of the market overall.

After defining submarkets, the next steps involve **quantifying demand by product type**, and then **forecasting the attainable share of that demand**. Demand forecasts reflect the underlying demographics of the submarket, as households in different life stages and socioeconomic tiers hold different levels of checking, savings, time deposit, loan and mortgage balances. Similarly, business demand varies by industry type and by size (as defined by annual sales volume).

The share of demand that a branch can anticipate capturing is a function of several elements, including the rate of **household growth and turnover** in the submarket, the **number of competing branches**, and the **institution's strength in the market overall**. Growth and turnover drive balance growth because it is easier to capture relationships from new-arriving households without predefined paths to work, school and shopping than it is to pry loose established relationships from incumbent providers. Competition carries obvious impacts, as demand remains fixed irrespective of the number of competitors dividing that demand. The effect of the institution's overall market position or penetration reflects the **network effect**, the phenomenon by which large branch networks capture a disproportionate share of balances. (For more on the network effect, see articles in the March 2010 and May 2004 issues of Bancology). In aggregate, these variables yield a composite share penetration estimate which, when multiplied by the market's demand, gives projected balances for a branch in the submarket.

At this point, the clean-slate analysis can end, as the projected balances for each submarket carry dual implications. For submarkets not currently served by the institution, the balance forecasts allow an ordinal ranking of branch opportunities. But the values carry benefit in currently served submarkets, too, providing a benchmark against which to compare current branch performance. If an objective market assessment reveals the Southside submarket as holding deposit potential of \$50M, then a branch already serving that submarket but holding only \$20M in deposits can be viewed as underperforming, i.e., carrying \$30M in untapped potential. *(continued on page 4)*

By evaluating all submarkets from a clean-slate perspective, a branch optimization study can provide a comprehensive, long-term road map for an institution's branch network

## ATMs: From Simple Cash Dispenser to True Self-Service Channel

In pursuit of both reduced personnel costs and improved customer convenience, financial institutions have recently introduced several new functions to convert automatic teller machines (ATMs) from simple dispensers of twenty dollar bills to complete self-service banking channels. Despite several decades of predictions of a cashless society, consumers continue to prefer cash for numerous purchases. Whether for reasons of privacy, simplicity, control or security, cash remains a seemingly irreplaceable element of the financial system, and so ATMs remain an indispensable part of any financial institution's delivery system.

Given the ATM's ability to displace costly in-person teller transactions, institutions have embraced new ATM functionalities that encourage customers to utilize that channel. The most prevalent new feature is the image-enabled depository, in which customers can deposit checks or currency directly into the machine without an envelope. The term 'image enabled' refers to the ATM's ability to capture a photographic image of the deposited items and print those images on a receipt for the consumer. The receipt's photographic evidence of the deposit removes the consumer's uncertainty of "will they really count my deposit?" and thus removes a barrier to using the ATM for deposits. Institutions that convert traditional envelope-deposit ATMs to image-enabled models often see deposit volumes increase from about 3% of transactions to as much as 15% - 20%, confirming that consumers perceive the image method as easier

and less risky. Institutions benefit, too, as the envelope-less model eliminates fraudulent 'phantom deposits' where the consumer receives cash against a claimed (but actually nonexistent) check in a deposited envelope. Further, because the imaged deposit transmits directly to the institution's processing system, image-enabled machines eliminate the courier cost of nightly pickups from remote ATMs and the teller cost of counting and entering the deposit.

In an even more robust attempt at teller replacement, some ATMs carry the capability to cash checks to the penny, and to let consumers choose the specific denominations in which to receive their funds (for example, ten \$10 bills, five \$20 bills, or any other combination that equals \$100). The ability to dispense coins adds cost to the machine, and as compromise some machines allow check cashing to the dollar, with the fractional dollar amount credited to the consumer's account rather than disbursed (for example, consumer deposits a check for \$80.22 and receives four \$20 bills with 22 cents credited to her account).

The image and denomination functions improve ease of use for the consumer, but other functions improve speed of service and security, two factors paramount in encouraging ATM use. The 'fast-cash' function that allows users to bypass some questions in the dialog with a one-button fixed withdrawal option on the initial screen has been in place for

many years. But now consumers can designate their own custom preferred fast cash amount; alternately, the institution can customize the fast-cash offer based on each customer's historic withdrawal patterns.

Security breaches jeopardize consumer confidence in ATMs, and frequent incidents of card numbers fraudulently captured (referred to as 'skimming') at the ATM drive some consumers away from ATM use. To counter that, a small group of institutions have instituted cardless ATM transactions, where the consumer uses the bank's mobile application to designate a withdrawal amount and ATM location. The bank then sends a quick response (QR) code to the user's smart phone, and the consumer scans that code at the selected ATM to receive cash. Though not immune to fraud, by eliminating the risk of the fraudulent capture of the account number from the physical card, the cardless approach improves consumer confidence, too. As an added benefit, cardless ATM withdrawals require less than 15 seconds versus about 45 seconds for traditional withdrawals, a seemingly small gain that will win outsized appreciation on an especially cold or rainy day.

All of the above capabilities share a common pair of objectives: increasing the customer's ease of using their financial institution, while decreasing the institution's cost of supporting that customer. With the cashless society still well out of view, those mutually beneficial outcomes predict broad adoption of this latest generation of ATM functions.

### Branch Productivity Benchmarks *(continued from page 1)*

margin at credit union branches and by more than 100-to-1 at bank branches. The teller transaction still remains the predominant form of interaction between the customer and branch staff, and a rush to emphasize sales can not occur at the expense of fundamental service requirements.

- Credit union expansion efforts continue to shift toward the bank style of branch network

deployment, and credit unions forced to pursue relationships from the general community versus an innate employee base of a legacy sponsor should anticipate lower account volumes and smaller branch account bases and adjust staff levels accordingly.

- Management at both banks and credit unions must also consider that the delineation of

credit union and bank branch employees is now blurred and each institution type is a competitor for top-tier employees against the other.

For more information about branch performance benchmarks and their implications for branch staffing, contact Jamie Eads at [jamie@bancography.com](mailto:jamie@bancography.com) or 205-254-3255.

### Branch Volumes

	AVERAGE DEPOSIT ACCOUNTS	MEDIAN DEPOSIT ACCOUNTS	AVERAGE DEPOSITS	MEDIAN DEPOSITS	AVERAGE LOANS	MEDIAN LOANS
Credit Unions	13,563	9,800	\$83M	\$61M	\$31M	\$22M
Banks	3,741	2,980	\$50M	\$38M	\$21M	\$8M



That gap may reflect facilities issues, sales management challenges or other factors, but identifying the gap allows the institution to immediately pursue performance-improvement initiatives, and quantifying the gap allows it to measure results against an objective benchmark. The analysis may also reveal a market to hold fair share deposit potential of only \$20M. Whether that reflects limitations of market size, demographics or competitive concentration, the measure confirms a market unlikely to provide sufficient balances to support a profitable branch. This leaves the institution with a decision of whether to close, downsize or otherwise reconfigure the branch, or to maintain the branch but temper expectations commensurate with its trade area's limited balance potential.

After deciding which underperforming and limited-opportunity branches warrant closure or consolidation, the institution can then consider the top-ranking submarkets for expansion, prioritizing submarkets that show not only financial viability but that also carry demographic alignment with its target market segments and geographic alignment with current (post-closure decisions) and other qualifying submarkets. By evaluating all submarkets from a clean-slate perspective, a branch optimization study can provide a comprehensive, long-term road map for an institution's branch network: where to add branches, where to close and where to reconfigure, ultimately yielding an optimally positioned and optimally performing franchise.

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# Branches Still Matter.

## Bancography builds branching strategies.

### *Bancography's Branch Network Optimization study helps you identify:*

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