

Optimizing retail banking channels: building business on a solid foundation

Retail banks must continually optimize their service “distribution networks” in response to market changes and new business initiatives. Is your infrastructure ready?



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A hypothetical cross-channel experience

Ben Fast decided to splurge for his 46th birthday and buy his dream car: a Mercedes-Benz CL600 sport coupe.

Ben decided to turn to his bank, TopBank, for financing; the bank handled his home mortgage and offered other conveniences, including automatic account drafting for monthly payments. Ben applied for the car loan through the TopBank Web site and was delighted to discover that most of his personal information was automatically entered into the application form for him. Finally, however, Ben needed help—the financing options were just too hard to understand.

Ben called TopBank's toll-free number to ask for help. At the voice prompt, Ben entered his account number and was quickly connected with Chris Grace in customer service. After verification of his identity, Ben was surprised when Chris asked, "Do you need help with your auto loan application?" "Exactly," Ben replied and, with just a few more questions, Chris was able to help Ben choose the best financing option for his needs and complete his loan application.

The next day, Ben dropped by his local TopBank branch to sign his approved loan paperwork and pick up the check. While he was there, he visited with his financial advisor, Rich Teu, to check his investment portfolio. Seeing that Ben had just received an auto loan, Rich suggested that Ben might want to consider insuring the car with TopBank's insurance partner. Rich escorted Ben to the insurance kiosk in the branch where they determined that Ben could save almost US\$150 on his semiannual insurance premiums. "This is terrific," thought Ben, "how much better can things get?"

As he settled into the driver's seat of his brand new CL600 coupe, Ben reflected on his banking experience. "TopBank sure has it all together," he thought.

Evolution of banking channels

Forty years of banking changes have given customers more flexibility and better service, while leaving most banks with an evolved – rather than crafted – set of delivery channels and supporting organizations.

Meanwhile, emerging communication capabilities have had profound leveraging impacts on the value of these channels:

- Originally deployed to give customers the convenience of doing their banking closer to home or work, bank branches typically provide the full suite of banking services to *any* customer at *any* location by connecting to centralized account information via networks.
- The capabilities of ATMs, initially introduced as standalone devices for cash dispensing, expanded dramatically as ATM network connectivity enabled realtime access to account information. Today, approximately 65% of all banking customers regularly bank through ATMs.¹
- MCI set up the first call center in 1983.² The model of a single, dedicated service center for all telephone requests benefited from emerging nationwide toll-free telephone services in the mid-1980s and quickly spread to other industries, including banking.
- The value of personal computers, initially envisioned as standalone devices for personal productivity, exploded as they became access points to the Internet – enabling, among many other things, Internet Banking. Current studies estimate that more than 25% of U.S. households now use the Internet for banking.³

With the right connectivity behind these channels, their value—both to the bank and to its customers—has been amplified.

With each new distribution channel, banks have enhanced the ability to deliver customer service. With the right connectivity behind these channels, their value – both to the bank and to its customers – has been amplified. As banking customers choose to interact with their banks over a variety of channels, however, it becomes increasingly important for banks to provide a consistent customer experience across all channels.

While it was originally expected that banks could reduce costs by investing in alternate channels (by migrating transactions from branches to lower-cost channels), most customers actually responded to new banking options by *increasing* bank interactions – resulting in *higher overall costs* for banks.⁴ Additionally, *customers are expecting more* in terms of breadth of services, speed of execution and consistency across all modes of interaction with their banks. In a July 2001 study by Verdi & Company, 80% of the respondents felt that they should be able to resolve online banking problems through any channel – phone, branch, e-mail or instant messaging.⁵

Refining channel strategy

Faced with increasing costs and heightened customer expectations, IBM's work with financial institutions suggests a growing need for these organizations to focus, at a business-strategy level, on optimizing their distribution channels – from selecting target markets to using channels to their fullest to serve those markets.⁶ Additionally, financial institutions need to integrate distribution channels operationally – in business processes, organization structure and IT infrastructure. Through channel integration, banks can enhance the ability to:

- Achieve competitive operational costs by improving efficiency and effectiveness.
- Become their target markets' provider of choice through superior customer service, thereby increasing their potential to grow revenues.

A necessary first step, though, is deploying a flexible, affordable and resilient infrastructure to support your channel integration initiatives. Following are some examples of banking channel-integration initiatives, and a discussion of their related IT infrastructure considerations.

Achieving competitive cost of operation

The evolutionary deployment of current banking distribution channels has left many banks with vertical *silos* of channel support. Integrating the support infrastructure behind the channels, where appropriate, holds the promise of improving efficiency and effectiveness.

Questions worth asking

- How well is our IT infrastructure positioned to support the possible leveraging of contact center staff for branch needs, such as for teller machine video interfaces or remote teller systems?
- Would it be possible for branch staff to be leveraged to support contact center initiatives (for example, introducing a prospective customer to the local branch team)?
- How easily can first-line customer contact points (branches and contact centers) share support teams such as product specialists?
- How well is our infrastructure positioned to quickly and cost-effectively support collaborative technologies, such as instant messaging, voice chat and ad hoc customer video conferencing?

Optimizing retail banking channels

As customer information— which needs to be made available at every customer touchpoint—increases in quality (data, photographs, document images, cross-selling information and so on), it becomes more important to establish processes to carefully assess and maintain the network capacity required to share that information.

The same comprehensive customer information can and should be made available to contact center representatives and to branch staff. Additionally, this customer information should reflect customer activity across all channels (including external customer service providers). Increasingly, it is also becoming financially attractive for banks to shift some customer service functions to external service providers or to offshore centers. Consistent customer information needs to be available at every touchpoint. Yet as that information increases in quality (data, photographs, document images, cross-selling information and so on), it becomes more important to establish processes to carefully assess and maintain the network capacity required to share that information. As customer information— which needs to be made available at every customer touchpoint— increases in quality (data, photographs, document images, cross-selling information and so on), it becomes more important to establish processes to carefully assess and maintain the network capacity required to share that information.

In the past decade, dramatic improvements in cost-effective network connectivity have enabled far greater collaboration— including instant messaging, voice chat and video conferencing— between bank employees and their customers (that may be in a branch, standing at an ATM or at home at their personal computers). These technologies can enable a bank to share product or services specialists (for example, insurance or investment advisors) across all channels, from *click to talk* on a Web page to special seminars or consultations in a branch conference room. For such collaborative voice and video technologies to share the single converged corporate network, however, requires greater network capacity and lower network delay than you may have in parts of your network today. Such network requirements must be coordinated with the IT infrastructure organization before application deployment, because it may require additional or upgraded network hardware.

Optimizing retail banking channels

Some banks are in early deployments of hybrid teller and self-service solutions, such as:

- Teller-assisted self service, where a teller is present to provide assistance with customer self-service transactions (comparable to similar solutions for airline check-in or grocery store purchases).
- Remote teller systems, through which customers interact with tellers using high-quality interactive video systems.

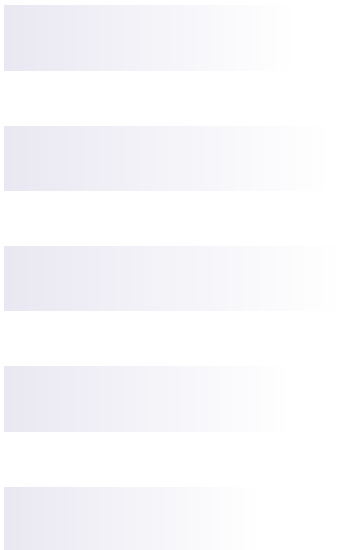
These solutions enhance branch responsiveness, expand cross-selling opportunities and allow tellers to support more customers, while utilizing automated cash-handling equipment that is designed to reduce risk and improve speed and accuracy. Remote teller systems require high-bandwidth networks with very stringent delay requirements, but they hold the promise of cost-effectively supporting multiple branches from a central pool of tellers (which can more effectively accommodate local peaks in branch requirements).

What banks are doing

A large Australian financial institution was faced with replacing its existing PABX telephone system because of limitations in supported connectivity and the inability to integrate a fully functional call-center solution.

With help from IBM, the bank designed and implemented a state-of-the-art call-center infrastructure, including a converged network capable of supporting both voice and data applications, a Cisco Systems IP telephony system and Performance Solution Australia call-center software.

The solution improves customer service through more effective call-management processes. It reduces the risk of telephone and data network failures by providing levels of redundancy not previously attainable. And, by allowing the management of a single converged network rather than separate voice and data networks, it helps reduce costs and improve scalability, add flexibility and enhance security features.



Becoming the provider of choice

Through the 1990s, as banks sought to diversify and grow revenue base by imposing service charges and fees, customer satisfaction declined significantly. Today, even as many banks continue to impose charges and fees, it is a strategic imperative for each bank to establish itself as the provider of choice for its target markets. Fortunately, most of the efficiency-oriented initiatives discussed in the previous section hold the promise of improving customer satisfaction, while also reducing costs. Beyond those initiatives, banks are seeking innovative ways to both attract new customers and expand the scope of services provided to existing customers.

Questions worth asking

- How well does our IT infrastructure support integration across each of our customer "points of contact" to the business, including external service providers (such as card service providers, investment firms, insurance companies, call-center service providers or bill-payment service companies)? (For example, can contact center staff tell what the customer has looked at recently on the Web?)
- Can our infrastructure deliver the same quality of customer information to all channels (branches, call centers, customer self-service, ATM, Web)?
- How well can we support the required integration of customer data points spread across disparate systems and even integrated service providers (network, systems, data standards)?

Yesterday's *call centers* have grown up into today's *contact centers*, now tasked with supporting online chat and e-mail in addition to traditional voice call support. And the next stage may well be *sales centers* as their roles expand beyond just addressing customer service requests to leveraging customer insight for coordinated cross-selling of offerings based on customer needs (age, life events and so on). These centers have the potential to benefit substantially from advanced voice-application capabilities available only with today's Internet Protocol telephony technologies.

Realizing that it is easier to expand the scope of services provided to existing customers than it is to win new customers, banks are under pressure to offer an expanding set of financial services to their customers while at the same time trying to focus on their core competencies. These services include insurance and investment products and services, credit and debit cards, bill-payment services and access to financial information from customers' personal investing software packages. This trend toward "unbundling the corporation"⁷ and leveraging service providers for noncore functions drives banks to use the Internet for its ubiquitous connectivity and virtual private networking (VPN) technology to safeguard communication with their integration partners.

Banks are beginning to deploy innovative new branch layouts that reflect the much broader set of products and services that they are offering—often with brokerage and wealth management areas in addition to the more traditional banking services.

According to *The Wall Street Journal*, a resurgence of high-service branch banking is one of banking's top ten trends.⁸ Banks are beginning to deploy innovative new branch layouts that reflect the much broader set of products and services that they are offering—often with brokerage and wealth management areas in addition to the more traditional banking services. The new branch format may also include conference rooms that can be used for consulting with clients, video conferencing, meetings with product specialists, multiclient seminars and employee training. Given the need for branch staff to be able to move freely around the branch yet still have all the information assets of the bank at their fingertips, the new branches can benefit substantially from wireless networking (safeguarded with VPN technology). Additionally, the increasing use of digital media for security systems, e-learning, merchandising, remote teller systems and high-quality video conferencing will drive the need for higher network bandwidth with more stringent network-delay requirements.

Resiliency

Resiliency, in terms of IT security, disaster recovery, high availability and scalability, becomes critical as banks increasingly leverage technology to enhance efficiency and reduce costs. Fortunately, today's converged IT infrastructures (consolidated data centers, servers and networks) can be cost-effectively engineered with higher levels of availability than were possible with yesterday's technologies. For example, IP telephony systems can be designed with higher levels of redundancy and resiliency than traditional circuit-switched PBXs.⁹ Also, as separate infrastructures (security systems, telephones, teller machines, branch offices and so on) are converged and shared, critical mass is more readily achieved to support the investment in hardening that infrastructure.

What banks are doing

A leading global financial services firm with more than 30 million consumer customers, assets of US\$742 billion, and operations in more than 50 countries was faced with a complex and aging conglomeration of telephone support (a mix of Centrex services and PBXs) in its 700 retail branch locations in the U.S. In addition, it needed to upgrade its branch local-area networks (LANs) from token ring to Ethernet and migrate from its IBM OS/2® branch platforms to support new applications.

IBM developed a solution for the bank that integrates Cisco IP telephony, including Unity Voice Mail and Auto Attendant, onto a single, converged-voice and data-networking infrastructure. The design is based on two regional call-processing centers and uses Cisco remote-site, survivability functionality in remote routers. The solution supports cost-effective redundancy, ranging from partial redundancy for smaller sites and full redundancy for large or important locations.

It is anticipated that this solution, which is currently being deployed, will reduce telephony and network costs, and position the bank for integrating future voice, video and data applications.

Business and technology strategy alignment

Probably no other business has been more profoundly impacted by technological developments than retail banking, particularly with respect to service delivery channels. Therefore, it is incumbent upon banking business leaders to carefully consider potential future opportunities to leverage new IT developments in business planning. For example, what are the business implications of IP telephony, and voice and data network convergence?

Likewise, it is important for banking IT leaders to understand the business strategies and plans. For example, how often are new applications (or changes to existing applications) tested on wide area network (WAN) links before widespread deployment? Most IT executives have experienced situations where business application deployments were delayed as the result of inadequate testing or planning of required network capacity. As the quality of customer information provided to contact center or branch office staff increases, it will be increasingly important to verify that the network is ready to carry that information.

Most, if not all, of today's channel-related banking initiatives significantly impact the infrastructure. As your organization optimizes your distribution channels, you must integrate your business and IT infrastructure strategies to help ensure that your infrastructure is ready to support your business initiatives and that your business initiatives fully exploit the potential of your infrastructure.

Get started today

At IBM, we have built a team of experienced, industry-focused consultants ready to help financial institutions build and sustain value – not only from their customer relationships, but also from their business and IT assets. We know the importance of blending strategies and technologies with the practicalities of day-to-day operations, and are today helping banks across the U.S. and around the world reap the rewards of sustained customer satisfaction. To explore how we can help your organization, contact your local IBM Networking Services consultant or visit us on the Web at

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About IBM Global Services

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