The Future of Branch Banking
Is the Universal Banker Here to Stay?

June 23, 2016
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The Five Levels...

- Strategic Consulting
- Real Estate
- Integrated Design
- Construction Management
- Branding

Exclusively for Financial Institutions
Who’s in the Room?

<table>
<thead>
<tr>
<th>Institution</th>
<th>Assets</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Zachary</td>
<td>$225,967,000</td>
<td>3</td>
</tr>
<tr>
<td>Business First Bank</td>
<td>$1,155,424,000</td>
<td>11</td>
</tr>
<tr>
<td>Citizens Bank &amp; Trust</td>
<td>$259,361,000</td>
<td>7</td>
</tr>
<tr>
<td>Citizens Bank &amp; Trust</td>
<td>$115,561,000</td>
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<tr>
<td>Community First Bank</td>
<td>$323,009,000</td>
<td>6</td>
</tr>
<tr>
<td>Crescent Bank &amp; Trust</td>
<td>$1,055,897,000</td>
<td>3</td>
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<tr>
<td>Delta Bank</td>
<td>$260,743,000</td>
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<tr>
<td>Fidelity Bank</td>
<td>$793,950,000</td>
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<tr>
<td>First American Bank</td>
<td>$863,399,000</td>
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<tr>
<td>First Guaranty Bank</td>
<td>$1,465,879,000</td>
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<tr>
<td>Gulf Coast Bank &amp; Trust Company</td>
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<tr>
<td>Home Bank, N.A.</td>
<td>$1,543,034,000</td>
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<td>Investar Bank</td>
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<tr>
<td>Lakeside Bank</td>
<td>$155,869,000</td>
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<td>Richland State Bank</td>
<td>$294,415,000</td>
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<tr>
<td>South Lafourche Bank</td>
<td>$165,251,000</td>
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<tr>
<td>United Community Bank</td>
<td>$546,994,000</td>
<td>12</td>
</tr>
<tr>
<td><strong>Attendee Average</strong></td>
<td><strong>$686,483,235</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>
Today’s Topics

- Change
- Multi-Channel vs. Omni-Channel
- Websites and Mobile Banking
- Self-Service Channels
- Change in Branches – Universal Bankers
- Recap
Change

“The times they are a-changing’’
– Bob Dylan, 1964
Consumers are Changing

### U.S. Population by Age

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Percent</td>
<td>Number</td>
</tr>
<tr>
<td>&lt;14</td>
<td>Gen. Z</td>
<td>60,766,706</td>
<td>19.2%</td>
<td>62,501,643</td>
</tr>
<tr>
<td>15-34</td>
<td>Millennials</td>
<td>86,757,535</td>
<td>27.4%</td>
<td>87,433,839</td>
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<tr>
<td>35-54</td>
<td>Gen. X</td>
<td>83,295,726</td>
<td>26.3%</td>
<td>82,392,326</td>
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<tr>
<td>55-74</td>
<td>Baby Boomers</td>
<td>66,118,308</td>
<td>20.9%</td>
<td>73,809,587</td>
</tr>
<tr>
<td>75-84</td>
<td>Greatest/Silent</td>
<td>13,375,460</td>
<td>4.2%</td>
<td>15,464,058</td>
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<tr>
<td>85+</td>
<td>Greatest/G.I.</td>
<td>5,983,253</td>
<td>1.9%</td>
<td>6,379,864</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>316,296,988</td>
<td>100.0%</td>
<td>327,981,317</td>
</tr>
</tbody>
</table>

Source: ESRI

- Millennials and younger are an “echo boom” that must be considered in planning for the long-term future
- Gen X is squarely in the credit-driven phase of life
- The Baby Boomers are a significant segment and approaching big lifestyle changes
<table>
<thead>
<tr>
<th>TRADITIONALISTS</th>
<th>BOOMERS</th>
<th>GEN X</th>
<th>MILLENNIALS</th>
</tr>
</thead>
</table>

- **TRADITIONALISTS**: Earliest generation, focusing on print and radio.
- **BOOMERS**: Generation raised on television, with major influences from the 1940s to the 1960s.
- **GEN X**: Generation X, born between 1965 and 1980, with influences from the 1960s to the 1980s.
- **MILLENNIALS**: Born after 1980, with influences from the 1990s to the 2000s, typically influenced by digital media like YouTube and social media platforms.
Some Big Questions

1. How do we serve the customers who have brought us this far?

2. How do we serve the up-and-coming generations?

3. How do we survive the financial “balancing act” of serving groups with diverse preferences and expectations?
Consumer Channel Preferences

In banking, most consumers use more than one retail channel

- Multichannel consumers: 65%
- Web only: 10%
- Branch only: 15%
- Call only: 5%
- ATM only: 5%

Source: ClickFox © May 2014 The Financial Brand
Omni Channel Distribution
VIRTUAL CHANNELS
A Brief History of the Internet
A Brief History of Internet Banking

- Early ‘90s – What’s the Internet? Surviving the S&L crisis

- Mid ’90s – The Internet is becoming a thing to consider
  - Do we need a website?
  - It’s an electronic brochure, right?
  - Surely it’s not transactional! Where’s the safety?

- Late ‘90s – Internet banking is here
  - It’s a differentiator
  - Internet-only banks

- Early 2000s – Internet banking is everywhere
  - It’s ubiquitous – table stakes to compete
  - It must be transactional to be relevant
Transaction Cost by Channel

Estimated cost per transaction by channel

- In person at a physical branch: $4.25
- By phoning a call center: $1.30
- ATM: $1.25
- Online banking using a bank or credit union: $0.19
- Mobile banking: $0.10

Source: Javelin Strategy 2013 © August 2014 The Financial Brand
Problem Resolution

How consumers feel about resolving their problems by channel

<table>
<thead>
<tr>
<th>Situation</th>
<th>Personal channels</th>
<th>Digital channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineffective Resolution</td>
<td>73%</td>
<td>59%</td>
</tr>
<tr>
<td>Faced Incident More Than Once</td>
<td>71%</td>
<td>41%</td>
</tr>
<tr>
<td>Good or Great Amount of Customer Effort</td>
<td>53%</td>
<td>39%</td>
</tr>
<tr>
<td>Interacted with Institution More Than Three Times</td>
<td>42%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: CEB Tower Group © April 2014 The Financial Brand
Getting the Website Right

- Bigger backgrounds and visual “drama” without clutter and confusion.

- Responsive websites adjust to the size of the device.

- Transactional? Yes!
  - Goal is online account opening and seamless transition between platforms.

- Cutting edge: Personal budgeting tools integrated with account data, including pending transactions; balances before login.
Things to Avoid

- Messy Layouts – Information overload; Consider a “5 second test” to qualify content.
- Missing Analytics – Determine what you want to know about customer behavior and track it.
- Mobile Mismatch – More mobile users are visiting your site. It must “scale” to small screens (mobile first design).
- Lack of Engagement – Use live chat and social media to create two-way customer interactions.
Responsive Websites
Going Mobile
New Mobile Banking Services

New mobile banking services to be offered by community banks (<$20B in assets) in 2015

- Transfer money using cell phone number/e-mail address: 34%
- Transfer money between personal accounts: 30%
- Remote secure deposit: 29%
- Mobile payments: 27%
- Bill pay: 26%
- Account balance viewing: 25%
- No plans to offer any mobile banking services: 16%
- Deals: 14%
- ATM locator: 14%
- Alerts: 14%

* Multiple responses allowed.

Source: KPMG © January 2015 The Financial Brand
Mobile Apps

- Seek engagement - User involvement translates to loyalty
- Increasing engagement = increasing expectations
- Seek simplicity - Do more with fewer taps
- Improve functionality - User insight provides the clues
  - Account opening
  - View balances before login
  - Block card use
  - P-to-P and P-to-B payments
  - Multiple users on one device
AUTOMATED CHANNELS
Self-Service – ATMs
Self-Service – ITMs
Interactive Teller Machines
Interactive Teller Machines

- Broader range of functions than an ATM
- ITMs can be a strategic component of a growth strategy
  - Extended hours
  - New markets with small format branches
  - "Leave behind" if closing a branch
  - Infill markets
- Economies of scale require numerous units
  - 10 – 20 units needed to reach “real” benefit
- Operators hired for interpersonal skills, not cash counting
- Not a universal banker – many things can’t be done by ITMs
- Don’t install next to a “live” teller
PHYSICAL CHANNELS
Channel Preferences

Consumer channel preferences for various banking activities

- Receive customer support: 75% personal channels, 18% digital channels
- Learn about financial products and services: 42% personal channels, 42% digital channels
- Use or access financial products and services: 38% personal channels, 56% digital channels
- Purchase new financial products or services: 66% personal channels, 54% digital channels

Source: CEB Tower Group © April 2014. The Financial Brand
Population per Branch

- Competitive intensity is magnified with fewer people per branch.
- Banks must take each customer relationship deeper to achieve branch profitability.
- A more sales-centric environment is needed to support this requirement.

Source: FMSI 2015 Teller Line Study
In-branch transactions decline due to increases in remote, online, and mobile transactions. Combined with fewer people per branch, this emphasizes the need to leverage each customer relationship to the fullest.
Branches Remain Relevant

The last time consumers visited a bank or credit union branch (by age)

Source: Bankrate.com © March 2014 The Financial Brand
Consumer channel preferences broken down by banking task

<table>
<thead>
<tr>
<th>Task</th>
<th>Branch</th>
<th>Call Center</th>
<th>ATM</th>
<th>Online</th>
<th>Mobile</th>
<th>Other way</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Inquiry</td>
<td>12%</td>
<td>21%</td>
<td>50%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>30%</td>
<td>8%</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report problem</td>
<td>40%</td>
<td>30%</td>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>49%</td>
<td></td>
<td></td>
<td></td>
<td>34%</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>52%</td>
<td></td>
<td></td>
<td></td>
<td>28%</td>
<td>14%</td>
</tr>
<tr>
<td>Advice</td>
<td>54%</td>
<td></td>
<td></td>
<td></td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>Sales</td>
<td>65%</td>
<td></td>
<td></td>
<td></td>
<td>7%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: E&Y © February 2014. The Financial Brand
About the Branch, not the Building

- **It's Not a Trend** – Decisions about how to reach and serve your audience must take a long-term view supported by a business case.

- **It's About Engagement** – In-branch interactions involve “big ticket” items – sales and problem resolution. Be prepared to engage the customers quickly and professionally.

- **Focus on Culture** – Facilities should facilitate the conduct of the businesses they house. Design from the inside out.

- **Develop the Business Case** – Develop of a robust business case to support the investment.

- **It's Your Model, not Theirs** – Community banks are adding branches, driven by market opportunities and guided by the principles described above.
Context for the Future - Branches

Branches remain a relevant service delivery venue
Most new relationships are still “walk-ins”

The purpose of the branch will change
Less about transactions
More about service and education

Personal service will always be appreciated
Defining personal service changes among generations
Service is at a Premium

Milbum Drysdale and Jane Hathaway - the epitome of personal service

Fewer customers per branch and fewer branch visits will amplify the importance of deep relationships

Service is defined by the recipient, not the provider
About the Building, Driven by Market

- **Size is Shrinking** - Size (and cost) declines with transaction volumes.

- **Technology is Increasing** - Technology changes at a rapid pace.
  - “Technology bars” becoming passé.
  - Cash dispensers and recyclers serve several purposes.
  - Digital signage will remain and grow in prominence.
  - Two-way video connects with subject matter experts.
  - ITMs or VTM’s real value depends on scale.

- **Universal Bankers** - Engage customers by handling almost any issue.

- **Community Connection** - Branches are designed with their communities and audience in mind. Community imagery reinforces the connection.

- **Flexible Space** - The ability to change as needs change, creates better security, and makes a better impression on customers and employees.
Importance of Convenience

- **Residence**: 60% of consumers prefer the convenience of banking close to home
- **Employment**: 40% of consumers handle financial needs at work
- **Location**:
  - Convenience
  - Service
  - Shopping is a routine destination which provides convenient services for consumers
4,900 Square Foot Prototype
2,800 Square Foot Modification
2,500 Square Foot Modification
1,775 Square Foot Modification
Branch of the Future

- **Cornerstone Branch** – Large format facility, universal bankers, subject matter experts, other amenities

- **Community Branch** – Sales-focused, universal bankers, technology, automation and ability to schedule subject-matter experts

- **Micro Branch** – Transaction focused, few employees, heavy technology, automation and branding

- **Self-Service Branch** – Fully automated, heavily branded and no employees
Cornerstone Branch
Cornerstone Branch
Comerstone Branch
Comerstone Branch
Community Branch
Community Branch
Community Branch
Community Branch
Community Branch
Community Branch
Micro Branch
Micro Branch
Each market has a goal.
Market Potential Index

- The Trade Area shows a robust appetite for all financial products and services.
- Products in high demand reveal a diverse market and affluent.
- Bank will need to provide its full complement of products and services to meet market expectations within the community.

The MPI (market potential index) measures the relative likelihood of the adults in the specified Market Area to exhibit certain consumer behaviors or purchasing patterns compared to the U.S. average (index of 100).
ESRI (Economic & Social Research Institute) Community Tapestry lifestyle data segments U.S. residential areas into 65 consumer segments based on demographic variables such as age, income, home value, occupation, household type, education, and other consumer behavior characteristics. This data provides a detailed description of America's neighborhoods.

Tapestry Profile

Around 40 percent of the residents within this Market Area fall into the defined tapestry lifestyle segments listed. These particular segments usually show strong attributes towards using financial products and services.
# Market Fundamentals

<table>
<thead>
<tr>
<th></th>
<th>Existing</th>
<th>Available &quot;Net New&quot;</th>
<th>Total Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>$820,029</td>
<td>$52,706,690</td>
<td>$53,526,719</td>
</tr>
<tr>
<td>Loans</td>
<td>$1,127,904</td>
<td>$85,397,882</td>
<td>$86,525,786</td>
</tr>
</tbody>
</table>

**Market Rating:** Green

**Solid market fundamentals**

## Demographics:
- Market Population
- Population Growth: 1.96%
- Median Household Income: $89,367
- MPI Market Average: 128
- Job Growth: Jun 13-Jun 14

<table>
<thead>
<tr>
<th></th>
<th>2Q 2014</th>
<th>Benchmark</th>
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</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>36,241</td>
<td>&gt;1.2%</td>
</tr>
<tr>
<td>Loans</td>
<td>1.96%</td>
<td>&gt;$50,000</td>
</tr>
<tr>
<td>Median</td>
<td>128</td>
<td>&gt;101</td>
</tr>
<tr>
<td>Income</td>
<td>683</td>
<td>&gt;500</td>
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</tbody>
</table>

## Traffic Counts: 2013
- Mallory Road: 21,000 to 26,000 AADT
- Carothers Parkway: 20,000 to 26,000 AADT

## Existing Customers:
- Number: 9
- Deposits: $820,000
- Loans: $1.10 Million

## Competitors:
- Number of Branches: 56
- Total Market Deposits: $3.0 Billion
- Commercial Lending Demand: $4.5 Billion
- Population per Branch: 647
- CAGR* Deposit: 1.42%
- Deposits-per-branch: $54,483,000

*Compound Annual Growth Rate
Don’t Forget the Business Case

- Know the market
- Quantify opportunity
- Count costs
- Evaluate outcomes

<table>
<thead>
<tr>
<th>Projected Performance</th>
<th>(Dollars in Thousands)</th>
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<tbody>
<tr>
<td># Customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Year 0</td>
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<tr>
<td>$ Fee Income / Customer</td>
<td></td>
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<tr>
<td>Loans</td>
<td></td>
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<tr>
<td>Loan Loss Allowance</td>
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<td>Investments</td>
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<td>Fixed Assets</td>
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<tr>
<td>TOTAL ASSETS</td>
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<tr>
<td>Deposits</td>
<td></td>
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<tr>
<td>Borrowings</td>
<td></td>
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<tr>
<td>Equity (Fixed Assets - Dep’n)</td>
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<tr>
<td>TOTAL LIABILITIES</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
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<tr>
<td>Investments</td>
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<tr>
<td>0</td>
</tr>
<tr>
<td>Deposits</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>Borrowings</td>
</tr>
<tr>
<td>0</td>
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<tr>
<td>Net Interest Income</td>
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<td>0</td>
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<tr>
<td>Fee Income</td>
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<td>Insurance Net Income</td>
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<tr>
<td>Total Other Income</td>
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<td>Personnel</td>
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<td>Overhead</td>
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<td>Loan Loss Provision</td>
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<td>Other</td>
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<td>Total</td>
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</tr>
<tr>
<td>Net Income</td>
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<tr>
<td>Cumulative Net Income</td>
</tr>
<tr>
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</tr>
<tr>
<td>ROA</td>
</tr>
<tr>
<td>-6.5%</td>
</tr>
</tbody>
</table>
Technology in Today’s Branch

- Cash Automation - Dispensers/Recyclers
- Digital signage
- Deposit-taking ATMs
- Interactive Teller Assisted Self-Service
- Video conferencing
- Tablets
Universal Banker

- Reduced transactions require rethinking in-branch roles
- By consolidating functions, flexibility, productivity and efficiency can be improved
- Universal bankers handle 95% of customer requests
  - Greet customers
  - Transactions (teller pod)
  - Simple services (teller pod or work station)
  - New accounts (work station or office)
  - Loan applications
Universal Banker

- Teller
- Teacher
- Greeter
- Adviser
- Lender
- New Accounts
- Listener
- Coach
Dialog Delivery
Dialog Teller Station

- Monitor
- Keyboard
- Coin Dispenser
- Privacy Screen
- Electronic Signature Pad
- Drawers (Slotted for work)
- Form Pockets (not shown)
- Trash Receptacle
- Cash Dispenser
What have we learned?
Omnichannel delivery addresses consumer demands
Service and convenience are defined by the customer

Channel proliferation, not migration, describes consumer response to technology
Branches provide:

- Sales
- Service
- Identity
- Convenience
- Density
• Delivery systems balance efficiency and service on the customer’s terms
• Universal bankers establish and deepen customer relationships
The right mix of delivery channels is unique to each institution

How are your branches performing?

What opportunities do you have?

- Existing markets
- New markets

What do your customers want? Expect?

“\textit{A goal without a plan is a wish.}”

\textbf{Plan your course and take action!}
The Five Levels...

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Exclusively for Financial Institutions