

Retail-Minded Banks Shift Focus to Traffic, Service

American Banker, Monday, November 22, 2004

By Lavonne Kuykendall

Evidence that bankers are trying to be more like retailers can be found in one bank's reliance on a lobby headcount -- or, if you will, a foot count -- to measure performance.

Amy Brady, Bank of America Corp.'s senior vice president of innovation and development, said that in some branches it now uses software developed by Brickstream Corp. of Atlanta to track how many customers walk in.

The Charlotte company compares the foot-traffic data against actual sales. Two branches might generate equal sales, but the software "tells us one store has 200 more customers coming in the door than the other," Ms. Brady said at a dinner sponsored by Brickstream during the Bank Administration Institute's Retail Delivery conference in Las Vegas.

Other bankers and experts at the conference last week agreed on the importance of enhancing branches -- and the products and services sold through them.

Concern about competition, especially from nonbanks, is one reason for all the spending on branches in recent years, said Mark Greene, the general manager of global banking industry at International Business Machines Corp. Over the last four or five years bank surveys of departing customers have shown an increasing number of complaints about service, he said in an interview.

In the past accounts were usually dropped for financial reasons, "but in the last 12 months U.S. banks are hearing more about service," Mr. Greene said. "Customer service expectations have gotten higher."

Retailers, airlines, and hotels all have found ways to treat valued customers well while cutting costs and increasing efficiency, he said.

"Compared to Wal-Mart and other industries with better cost structures," banks are not performing as well. He expects a flood of branch redesigns and other innovations in the next 18 months or so.

Also at the conference, several bankers said they planned to put large flat television screens in branches to entertain customers waiting in line for tellers.

Though the idea has been around for a year or two, bankers have become more interested as they have upgraded their underlying networks. According to James Bright, the U.S. industry marketing manager for financial services at Cisco Systems Inc., the new networks make things such as TV screens easier to manage

"We can take [video] feeds and tailor marketing messages" to fit a neighborhood, Mr. Bright said. "They are centrally managed and controlled and served up locally."

The flat screens should go nicely with some of the automated teller machines that drew bankers' attention in the conference's exhibition hall. The most popular ATMs appeared to be those that scan customers' check deposits and present receipts that include copies of the checks and deposit slips.

All the fancy hardware is meant to help banks be more appealing to customers and more like retail outfits, according to Paco Underhill, who bills himself as a retail anthropologist.

He said in a speech Thursday most bankers who spoke with him were less worried about a "new Wamu branch in the neighborhood than they are about Wal-Mart coming in."

Bank of America's senior vice president of payments and strategy, Jonathan Wilk, urged bankers to pay attention to payments, which generate more than 40% of his company's revenue.

Mr. Wilk predicted a gradual movement to check imaging, along with a continued migration of payments to credit and debit cards. He predicted growth in all categories of payments except checks.

The Check Clearing for the 21st Century Act, which went into effect last month, is "a success story in the making," he said. "We like to laugh at all the Check 21 hype. One of my colleagues says it is the biggest nonevent since Y2K. We believe Check 21 will have a major impact, but it will be evolutionary, not revolutionary."

Banks must be careful to make sure that business and customer needs, not technology, drive their strategy for implementing Check 21, Mr. Wilk said in a speech Wednesday. "If you let technology drive it, you overbuild -- or another risk is you underbuild and can't meet the needs of commercial and consumer customers."

Debit continues to grow, and merchants' acceptance of PIN debit is still expanding, he said. The biggest growth in electronic payments in the next few years will come in debit and ACH payments, he said -- both will grow at a compound annual rate of 14% through 2010.

Mr. Wilk would not say whether the growth in ACH transactions would lead to the charging of interchange, but he said the ACH has an "unusual" economic model. "You pay for the convenience of having someone draw money" out of a demand deposit account.

Analysts and bankers agreed that card interchange will probably keep rising. But Scott Betts, the president of enterprise payments at First Data Corp., criticized the "legacy thinking" of depending on increasingly unhappy merchants to pay ever higher prices.

Visa U.S.A.'s PIN debit interchange hike this month may force First Data, of Denver, to raise the rates on its Star network, he said.

"We are evaluating interchange," according to Mr. Betts, who said he has misgivings about raising it. "Merchants feel we have gone past having a balanced value. They feel they have no control."

He predicted more cooperation among merchants to promote private-label cards, which do not run through Visa or MasterCard networks. The merchants might even cooperate to issue cards that are honored by more than one merchant, he warned. (In addition to running the largest PIN debit network, First Data runs the largest merchant processing business.)

Mr. Betts said banks were being shortsighted in boosting PIN interchange, because the increase may tend to discourage merchant acceptance of a payment method that offers more security than others.

"Less dependence on interchange would be better for the industry," he said.

It would be better for financial institutions to come up with new products that carry a charge, rather than raising fees on existing products, Mr. Betts said.

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