Potential Employment Effects of the Restructuring of Retail Banking

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The largest U.S. commercial banks are currently in the process of restructuring their retail operations. A stagnant deposit base and intense competition in the marketplace for financial services have made the overhead costs of an extensive branch network increasingly onerous. At the same time, advances in electronic communications technology are making low-cost remote delivery of banking services more of a reality. In response, banks are taking several important steps to restructure their branch systems. This presentation will focus on two of these steps: the substitution of supermarket (also called in-store) branches for traditional offices and the expansion of telephone banking through twenty-four-hour phone centers.[1]

SUPERMARKET BRANCHES

The supermarket branch represents a new, compact design for an office that is used to serve a bank's household and small business customers. It is a full-service site occupying 400 to 600 square feet of leased space, usually located within a giant supermarket of 50,000 or more square feet. For the convenience of bank customers, the in-store branch is open seven days a week and most evenings, like the supermarket.

The installation cost of a supermarket branch is only a fraction of that for a traditional stand-alone branch. Moreover, despite a supermarket branch's longer hours, it is only half as costly to operate as a traditional office. Much of the savings in operating expenses is the product of lower staffing because in-store branches typically use six full-time-equivalent employees, compared with twelve at a conventional branch.

According to industry analysts, there will soon be 4,000 supermarket branches out of a total of 50,000 U.S. commercial bank branch offices. Nationally, several large banks have announced plans to open hundreds more during the next two to three years. In the Second District, a number of banks have likewise opened in-store branches and others have announced plans to open more. The cost savings and other advantages of using supermarket branches are just as compelling in the Northeast as elsewhere. In much of the Northeast, however, a shift to the new branch design is taking place more slowly than in other parts of the country. This is explained in part by the Northeast's smaller proportion of the super-size stores that banks desire for their supermarket branches. However, as the chains add more superstores in new or existing locations, we expect banks in the region to adopt in-store locations to the same extent as banks in other regions.

By reducing the total number of branches in their networks and substituting supermarket branches for traditional branches, banks hope to reduce substantially the noninterest expenses of providing retail services. Consider the major restructuring move announced by Wells Fargo, one of the largest U.S. banks. The bank has indicated that

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in California it will be remaking its branch system from about 1,000 traditional branches to roughly 250 traditional branches and 250 supermarket branches (*American Banker* 1996).

Any reconfiguration of a branch network along these dimensions could have a significant effect on employment in the retail division. Assuming that a bank typically staffs each traditional branch with twelve full-time-equivalent employees and each supermarket branch with six, branch employment could fall by half as a result of a comparable restructuring.

Phone Centers

Besides adopting a new design for their branches, banks are expanding their use of phone centers, which are consolidated contact points through which retail customers can access the bank. To make service requests, customers contact the bank by using an 800 number, regardless of which branch they typically visit. (In fact, several banks no longer make the telephone numbers of their branches available to customers; calls must go to the phone center.) Calls first reach an automated response system, but a customer can have a call routed to a service representative. Most large banks keep the phone centers open twenty-four hours a day; others keep them open well beyond conventional branch hours. In addition to being a service department for existing customers, phone centers are now being used to take loan applications and to open new accounts.[2] Banks are also encouraging customers to deal entirely by phone and by mail to open a checking account or to establish a home equity line of credit.

Phone centers replicate many of the services obtained at branches. The deployment of phone centers allows banks to both reduce the number of branches in their office networks and use more of the reduced-staff supermarket branches.

Phone center usage is growing rapidly among the largest retail banks. Fleet Financial Group's call volume has risen from 6 million calls in 1991 to 30 million in 1995, excluding customers gained through mergers, and 57 million including them (Fleet Financial Group 1996). As a result of increasing call volumes, phone center staff represent a rising proportion of total employment in a bank's retail operations. For example, KeyCorp, which operates 1,300 branches in fourteen northern states, currently runs three phone centers, which received 39 million calls in 1995. KeyCorp employs a staff of 609 full-time equivalents at its phone centers. Assuming again that staffing at traditional branches is typically twelve full-time-equivalent employees, the three phone centers together have a labor force equivalent to fifty-one branches.[3]

In addition, First Union Corporation, also a super-regional bank, was operating, as of year-end 1995, 1,959 branches along the East Coast in twelve states and the District of Columbia. To serve its 11 million customers, it employs a staff of 44,536 and currently operates five phone centers. Again using the earlier assumption, its phone centers have a staff of 1,300 full-time-equivalent employees, comparable to the combined employment of 110 branches (First Union Corporation 1996; Boehm 1996).

Impact on Bank Employment

Both the permanent reduction of traditional branch offices and the substitution of scaled-down supermarket branches can be expected to directly reduce employment in a bank's geographical service area. To some extent, the reduction of branch staff will be offset by staff increases at phone centers. However, the efficiency gains achieved by having customers use the manned and automated segments of the phone center instead of branch offices for service requests imply a net reduction in the staff used in retail operations. Moreover, the development of highly functional, always available telephone services makes the use of automated teller machines (ATMs) and home banking packages more attractive in the eyes of the customer.

A second effect of transferring work performed at the branches to the phone centers is to concentrate a bank's employment geographically. Rather than have its employees located at its branches and spread over its service area, a bank will concentrate its employees at a single phone center in the case of a regional bank and at two or more sites in the case of a large regional or super-regional bank.[4]

Employment across the country and in New York State may be adversely affected by the restructuring of

banks' retail operations. If all 166 New York State commercial banks reduced their branch offices by half and used a combination of traditional and in-store branches in equal proportions, employment in retail operations could fall by half. Furthermore, super-regional banks appear to deploy about half of their total staff on the retail side. As a rough estimate, as much as one-tenth of total commercial bank employment of 208,000 (as of year-end 1995) could be reduced as a consequence (Federal Deposit Insurance Corporation 1995).

Moreover, the economy of the New York City metropolitan area would seem to be more affected than New York State as a whole. Positions created at phone centers partially offset positions eliminated at branch offices. However, phone centers are less likely to be located in the New York metropolitan area than in lower cost areas with a sufficiently large labor pool to staff a twenty-four-hour center of 200 or more employees adequately.[5] In addition, the increased use of shared electronic networks for ATMs and home banking through a personal computer and a modem would also tend to shift employment out of branch offices to centralized locations that can be outside a bank's service area.

ENDNOTES

1. Orlow, Radecki, and Wenninger (1996) discuss in detail the movement to electronic delivery channels for retail banking services and how it is integrated strategically with the introduction of supermarket branches and phone centers.

2. Phone centers are being used in two other ways. First, phone center representatives are making outbound sales calls as well as taking incoming calls. Second, phone centers serve internally as help desks for branch personnel.

3. As of year-end 1995, KeyCorp's total employment was 29,563. Employment at the phone center now represents 2 percent of total employment (KeyCorp 1996; Baruah 1996).

4. The redesign of the branch network is necessitating changes in the ways that banks serve their small business customers. In lending, less of the work is done in the branch office. It is being transferred to regional, statewide, or bankwide lending and servicing offices, which are increasingly using scoring methods to reach credit decisions. Small business customers are also being given telephone support to reduce the frequency of branch visits.

5. The present locations of large banks' phone centers seem to be partly a legacy of mergers and acquisitions.

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