Quality of jobs and
Innovation generated
Employment outcomes

QuInnE.eu

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Concord Credit Union: Evolving Employees Roles in the Post-Crisis, Digitally-Driven Banking Industry

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QuInnE - ***Qu**ality of jobs and **Inn**ovation generated **E**mployment outcomes* - was an interdisciplinary project investigating how job quality and innovation mutually impact each other, and the effects this has on job creation and the quality of these jobs.

Drawing on the Oslo Manual, both technological and non-technological innovation were investigated. Through quantitative analyses and qualitative organization-level case studies, the factors, as well as the mechanisms and processes by which job quality and innovation impact each other were identified.

The QuInnE project brought together a multidisciplinary team of experts from nine partner institutions across seven European countries.

QuInnE Project Member Institutions:

- *Lund University, Sweden*
- *The University of Warwick, UK*
- *Universitaet Duisberg-Essen, Germany*
- *Centre Pour La Recherche Economique Et Ses Applications (CEPREMAP), France*
- *Magyar Tudomanyos Akademia Tarsadalomtudomanyi Kutatokozpont, Hungary*
- *Universiteit van Amsterdam, The Netherlands*
- *Erasmus Universiteit Rotterdam, The Netherlands*
- *Universidad de Salamanca, Spain*
- *Malmö University, Sweden*

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More information about the project and project generated publications and material can be found at www.quinne.eu.

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The QuInnE teaching cases and teaching notes are based on the confidential field research conducted in the context of the QuInnE project. They are written to provide material for training and class discussion rather than to illustrate either effective or ineffective handling of a management situation. Personal names and identifying information from the research cases have been altered for the purpose of confidentiality. The case studies and teaching notes have been developed in cooperation with RSM Case Development Centre of Rotterdam School of Management, Erasmus University (www.rsm.nl/cdc).

Concord Credit Union: Evolving Employees Roles in the Post-Crisis, Digitally-Driven Banking Industry

Introduction

On a warm Monday in May, 2017, Paul Beaumont, CEO of Concord Credit Union, one of Europe's largest credit unions, or mutualist banks, paused in his lecture of a consulting report on the future of the banking industry, and reflected on how the predicted evolution would affect his institution. The industry was at a crossroads: faced with increased regulation, the need for cost-cutting, industry overcapacity, rapid growth among non-traditional competitors, and increasing customer demands for flexible and digital options, retail banks were navigating a rough and uncertain industrial terrain, and needed to decide which would be the smoothest and surest path to take for their long-term future. Few banks, if any, had a clear vision of which path to take. After years of developing increasingly complex products and services, with the resulting financial crisis and subsequent tightening of regulations, and decrease in interest rates and profitability, banks were now once again focusing their growth efforts on the customer. Restructuring was a given, but how?

Customer behaviour had changed dramatically over the last decade, particularly with the rapid adoption of smartphones and the internet. Retail banks had to accommodate customers' increasing demands for flexibility and self-service options. But every digital offering required hefty investments, and had lasting implications on a bank's organisation, in terms of both its physical footprint of offices, as well as its employees. However, as the financial crisis had clearly indicated, banks' complex products, services and organisations were long overdue for an overhaul. New technologies were the sought-after solution to enable a smooth transition to simpler, more customer-focused banking.

As a credit union, Concord Credit Union (CCU) was owned and operated by its customers; its mandate was one of solvency and high customer service levels, rather than high profitability, as with most other banks. Because of the more democratic structure of this mutualist bank, management already had a good idea of what their customer-owners wanted, placing them one step ahead of other large commercial banks, that were still trying to figure out who their current and potential customers really were, and what they needed to do to satisfy these customers as well as their demanding shareholders.

But in the new world of banking, competition had also dramatically changed. Fintechs -- pure players in online banking, or purveyors of focused financial services, such as investments, online payments, or instant credit -- had added a layer of complexity to an already complex competitive landscape. With no or few physical offices to staff and maintain, running costs for fintechs were low, and cutting-edge services could be offered at very competitive prices. Larger banks needed to decide whether to beat them, buy them, or join them.

CCU customers belonged to the traditional side of the banking spectrum, demanding digital options while retaining the need for physical contact with representatives from the bank. But what about the next generation of customers? Growth was now intrinsically linked to a digital offering, much more than to a physical footprint of offices, as had been the case only a few decades ago. Banks were now either plunging in at the deep end of technology, offering independent or integrated online banking while decreasing their physical footprint, or were approaching technology cautiously, trying one option at a time among the myriad of digital offerings. How should Beaumont approach the wave-pool of technology before him?

As within all service industries, Beaumont had to consider not just his company and his customers, but also his employees. The choices he made for the bank's restructuring and long-term growth would have an immediate impact on his employees, who were also customers and owners of the bank. Which path would he choose, and what would this mean for his company and his employees? Any choice was a bet on the future.

Banking Industry: Brief History and Current Snapshot

Banks (from the Latin word for 'bench' where money lenders used to sit in Roman forums; also linked to the word 'bankrupt', which happened when the money lender's bench was literally broken after his loans went bad[4]) have existed since the beginnings of civilisation, and have evolved over the centuries to be essential service providers to nearly every individual in industrialized economies. Along with IT and telecoms, financial services activities were considered among the most innovative in service industries.[5] As a fast adopter of computer technologies in the 1960's, the banking industry embraced automation in the 1970's. 'The real

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[4] Davis, Bruce. *The Guardian*. 'A brief history of banking: the link between money and society.' 21 Aug 2013. Available at: https://www.theguardian.com/sustainable-business/history-banking-money-society
[5] Source: Eurostat, 2015

turning point...was taking technologies outside the physical premises of the bank'[6] with the diffusion of Automated Teller Machines (ATMs), together with the use of credit cards. The current phase of banking development evolved from this concept of 'free-from-branch' transactions introduced by ATMs: the proliferation of service delivery channels, first through call centers and then through the internet, that allowed customers access to banking services anytime, anywhere.[7] 'Over the last decade, the principle that access to service should be independent from the physical location of the financial institutions has become the engine of evolution of retail banking.'[8]

The internet allowed the development of a new method of banking:

> *We are now at a digital tipping point, with rapid technological advances enabling all aspects of banking to be conducted online. And customers' expectations are evolving in tandem. They want to transact at their convenience, with information and advice at their fingertips. Quite simply, distribution is ripe for digital disruption.*[9]

But more than just another distribution channel, the internet also became the platform for Fintechs, financial technology start-ups generally focused on just one or a few banking services that were disrupting the entire industry.

In 2016, banking was one of the leading European private sector employers in services industries, representing 1.5% of total employees across EU member states[10] and roughly 3% of the private sector workforce in France and Spain. Approximately 70% of bank employees in these two countries worked in retail (i.e., direct-to-consumer) banking. The banking sector shrank after the financial crisis, experiencing -4% job growth between 2008-2016 in France and Spain, and -17% on average across the EU. Additionally, hundreds of local bank offices were closed, their numbers decreasing by an average of -21% across Europe (see Appendix I). But there was still much concern for inefficiency and overcapacity, with a resulting pressure for further industry-wide restructuring.

> *One would usually expect that restructuring efforts [such as branch network and workforce reductions] undertaken in the banking sector [would] result in efficiency gains. However... those measures have neither systematically*

[6] Consoli D. (2005), 'The Dynamics of Technological Change in UK Retail Banking Services: an Evolutionary Perspective,' *Research Policy*, 34, 461-480.
[7] Ibid.
[8] Ibid.
[9] PwC Retail Banking 2020. Available at: https://www.pwc.com/gx/en/banking-capital-markets/banking-2020/assets/pwc-retail-banking-2020-evolution-or-revolution.pdf
[10] Eurostat statistics, Labour market in the EU, 2016. Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Labour_market_and_Labour_force_survey_(LFS)_statistics ; as well as EBF (European Banking Federation) Statistical Annex, 2017. Available at: https://www.ebf.eu/statistical-annex/

resulted in higher cost efficiency nor in a higher overall profitability [for] banks. In many countries, a consolidation and downsizing of the system might be required so that the remaining banks can enjoy pricing power and sufficient demand to increase the ...capital generation capacity of the system.[11]

Whereas a July, 2017 European Parliament briefing suggested that 'banks operating in a market with a higher concentration and fewer competitors [could] generate higher profit margins,' this overlooked two new industry imperatives: regulations would indeed tend to make banks more nationally and regionally based; however, technology had now made banks independent of a physical network, so that 'competitive reach...[was] no longer determined by branch networks, rather by banking licenses, technology and advertising budgets.'[12]

Concord Credit Union was already regionally based and managed, with constant, though limited, oversight from central offices. Right or wrong, Beaumont was convinced that to best meet the demands of its customers, CCU needed to stay focused on its regional offices. One crucial question was how best to reduce the costs of these regional offices to remain competitive, while also building a digital platform for the future.

Competition

In addition to traditional banking networks -- including large commercial banks as well as customer-owned credit unions -- competing against each other for a limited customer base, the internet had enabled fintechs to develop. Large banking institutions viewed fintechs as either opportunities or threats: potential partners with whom to merge, thereby leaping ahead in digital innovation rather than incrementally innovating in-house; or formidable competitors, capturing portions of their existing and potential future client base (see Appendix II a).

<u>Focus on Fintechs</u>

Beaumont had followed the development of Compte Nickel, a banking fintech, with great interest. Founded by a creative engineer, or technology

[11] Magnus, M. et al., European Parliament IPOL EGOV briefing, July 24, 2017, PE'Overcapacities in the European Banking Industry', p. 5. Available at: http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/602098/IPOL_BRI(2017)602098_EN.pdf

[12] PwC Retail Banking 2020 report, p.11. Available at: https://www.pwc.com/gx/en/banking-capital-markets/banking-2020/assets/pwc-retail-banking-2020-evolution-or-revolution.pdf

'geek', who had partnered with a former banking executive, Compte Nickel used an online platform and France's large network of tobacco sellers to allow poor and indebted persons to open a 'bank account' without any bank, providing easy access to a method of payment, through a digital wallet, bank ID number, and payment card. Although larger banks shied away from providing any financial backing for the venture, smaller financial establishments managed by their own founders were more familiar with innovative projects and found Compte Nickel attractive. Within a few years, the new bank had grown to over half a million accounts. Perhaps to gain a leap on a new technology and a new way of doing business, or perhaps merely to absorb a competitor, France's largest bank, BNP, had purchased Compte Nickel in July 2017.

Other fintechs were popping up in all domains of banking. Among services provided by fintechs, six areas could be defined: banking, payments, investment and financial management, insurance, currency and exchange, and lending and financing.[13] Depending on the type of service provided and the technology needed to enable online servicing, fintechs were at the cutting edge of not only customer-focused banking, but also, flexible, low-cost staffing. Fintechs also drew upon global human talent available in technology and software development through the human cloud: hi-tech, freelance personnel available on cloud platforms, at low costs.[14]

But fintechs weren't the only new players in banking. The emergence of online banking had also enabled the development of banking services from companies outside the traditional banking industry: IT and telecoms firms, such as Orange in France, were also becoming 'serious competitors'[15] in the banking industry. Large supermarket chains, such as Carrefour, that already had a financial presence through customer credit schemes, and could boast an extensive physical footprint, were also making inroads: Carrefour had launched its own online bank in March 2017.

The traditional banking industry was indeed being challenged on all sides.

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[13] Meola, Andrew. *Business Insider.* 'These are the top financial services providers and Fintech start-ups.' Dec. 22, 2016. Available at: http://www.businessinsider.com/top-financial-services-providers-and-Fintech-startups-2016-12?international=true&r=US&IR=T

[14] Kaganer, E. et al. *MIT Sloan Management Review*, Vol. 54, No. 2. 'Managing the Human Cloud'. Winter 2013.

[15] Director, French Observatory of Banking Professions, quoted after Perez, C. (2016) Banking industry profile-France. QuInnE, Internal Document, August.

Strategic Options

The new focus in retail banking was on the customer: markets were saturated, and after the financial crisis, customers had lost trust in the banking system. With regulatory compliance a mandate, banks needed to simplify their complex product and service offerings and, enabled by innovation in technology and processes, to adapt and develop distribution channels and organisations, to regain the trust of existing customers and to attract new ones (see Appendix II b). But most banks did not know where to begin to meet these challenges (see Appendix II c) .

For traditional banks offering a broad range of products and services, several business models had emerged.[16]

1) 'Click and mortar': cross-selling bank products via a website in order to diversify distribution channels and reach new clients;

2) 'Pure player': creation of a pure Internet bank without the support of physical branches;

3) 'Mixed': in practice, the 'click and mortar' and 'pure player' strategies were not entirely alternatives. Indeed, the large majority of traditional European banks had set up an internet portal and a separate internet bank with its own brand and function as an independent entity.

But there were also variations on this 'mixed' strategy. Classic banks that had developed (or bought) an online bank alternative could treat these as either wholly separate subsidiaries, or could integrate them in-house.

Banks which had tried this latter alternative of keeping their online bank in-house and structurally linked to their classic bank, however, had not yet reaped the expected rewards. The intent of keeping an online bank in-house was to share employees, resources and infrastructure, and thereby reduce costs. However, the reality had proven somewhat different, as the technology and knowledge gaps between the two types of banking options were too great, forcing the in-house internet bank to effectively operate in a very detached manner.

Existing customers demanded the 'click and mortar' option from every bank, while new customers seeking mainly cheap and quick deposit accounts tended to

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[16] Arnaboldi F., Claeys P. (2009), Internet banking in Europe : a comparative analysis, in Financial Innovation in Retail and Corporate Banking, Anderloni L., Llewellyn D. and Schmidt R. (Eds.), Edward Elgar, pp.111-145.

prefer 'pure player' internet banks. But many customers had accounts with both types of banks.

Faced with so many new options and strategic alternatives, most banks were simply overwhelmed. According to one bank union representative at the industry level:

> *No one knows exactly what will be or should be retail banking tomorrow. There is no real strategy. Competitors quickly imitate the first group that makes a decision. It is more a question of image than of strategy. They [bank managers] don't know where we are going.*

But for some top managers, the imperative was clear. As one bank executive recognized: 'Digitisation is ultimately an opportunity to reduce our costs.'

Customers

Banking customers' requirements and preferences were changing across Europe, with customers increasingly demanding digital offerings. Customers' age, geographic location, level of education, social status, and other factors all contributed to their choice of how to manage their money. Customer preferences spanned the more traditional branch-driven interactions, to completely remote and independent service offerings, accessible, for example, through mobile phones (see Appendix III). For Beaumont, his credit union's customers were fairly well-understood: they favored branch visits and personal contact, especially among the older client base; however, younger customers, in particular, wanted the convenience of having at least basic digital products and services available, although demand for more complicated online offerings was increasing. From industry and media sources, Beaumont knew that most other large commercial banks were still trying to get to know and better serve their customers; so he felt confident of having at least a small advantage over his next largest competitors.

The Evolving Role of Bank Employees

The majority of bank employees were customer advisers, working through the bank's various distribution channels, which included branch offices, call centers, and online banking. There were more specialized positions as well, including loan or investment officers. Career paths for bank employees had traditionally involved starting as a bank teller in a branch location, then becoming an account manager for individual clients, then moving to professional customers, and finally, working in wealth management. Some retail banks also preferred their agents to spend their first year in a call center, to become familiar with the range of customer inquiries and banking tools. In recent years, however, customer demands and online banking had forced radical changes to employee job descriptions.

As the use of digital channels was increasing, foot traffic into physical branch locations was decreasing, leaving branch offices overstaffed, and alternative channels often understaffed for the amount of remote help being sought by customers. Banks were responding to this trend in a myriad of ways. Some had drastically closed branch offices, as had been the case in Spain after the financial crisis, not just referring, but almost forcing, reticent customers to adopt the digital channel. Others had reduced staff in branch locations, either through layoffs, or through reassigning branch personnel to online customer service. Across the Euro area, for example, the number of customers per bank employee had increased by roughly 20%, while bank assets managed per employee had increased by 10% (see Appendix IV). According to European banking trade unions, 'Offices which used to have 10 employees now have 3. There is a greater workload for the workers who remain.'

Impact of Industry Changes on Employees

In 2017, confusion reigned in many banks. In one large, traditional bank, the bank teller position had been eliminated, leaving walk-in customers completely bewildered as to where to go for help. Other banks had chosen to reduce the number of specialists, and to relocate the best ones to central or head offices, leaving agents in local branches to refer unhappy customers somewhere else. Many banks had simply reduced staffing levels across the board, leaving remaining employees overwhelmed and overworked.

Some banks had also begun using AI systems, such as IBM's Watson, to assist customer advisers in quickly finding the right answers to customer inquiries, or to sort through incoming calls and e-mails. Basic inquiries were routed to branch office customer advisers, who would then answer these during their downtimes, while more complicated questions were routed to specialists. This alleviated some of the workload for remote bank agents and allowed advisers in branch offices to be more productive and to experience online work.

Branch office agents were busier than before, but their working hours had remained more or less stable. This was not the case with other types of customer advisers. Most banks wanted to present the branch office and online agent positions as equivalent to employees to facilitate movement between the two spheres, especially during the process of branch closures or reduction of branch personnel. But in reality, working conditions between the two positions often differed greatly. Agents located in branch offices worked during the opening hours of the office, although increased administrative tasks often called for extended working hours after the office closed to the public. For e-advisers, in line with online demand, highly variable working schedules required employee flexibility, which was often at odds with work-life balance. Also, tele-working from home for these remote agents was not yet an option in most banks. As one customer adviser noted: 'Distance work takes more time than when the client is there in person. E-mails take a huge [amount] of time. In addition, customers expect an immediate response.'

Banks who adhered to a formal separation of customer channels and employee roles had found their employees reluctant to leave the branch offices to become remote e-agents, without the physical contact and formal relationship-building with customers, and with the added burden of variable and inconvenient schedules. Additionally, most online agents quickly realized that once they were out of the front office positions, there were few opportunities to go back, and the possibility for visibility and promotion within the bank decreased substantially.

Further, e-advisers had to be trained not only in the bank's products and services, but in the online channel itself, to know how to find specific information or forms, or where on the bank's website to send the client for a specific need. However, these digital skills were become increasingly necessary for all bank employees, as customers were training and informing themselves, and often came with very specific questions that challenged agents in the branch locations. A customer adviser remarked: 'Today we are tested by the customer. With the internet, they have the answers before coming to the appointment. I'm even learning things about my trade from customers.' One manager summarized the challenge faced by bank agents today: 'It's not technology that will kill them. It's incompetence.'

In addition to branch office employees and online agents, call center agents also played an important role in servicing customers. Depending on the bank, their role could either be that of a one-stop customer interface, in which they would be trained and empowered to help customers with most of their banking questions; or, still adhering to the traditional separation of roles, some banks had relegated call center agents to a low-skilled, low-value-added position, in which they were required to refer any calls, other than those for very basic information, to customer advisers and specialists. In most call centers, low wages and high turnover were the standard. The position of call center agent was considered entry-level, generally for young employees with low- to medium-level skills (i.e., baccalaureate and up to roughly two years of undergraduate study). In most banks, call center agents had little, if any, possibility of promotion.

Employee Options at CCU

As in other industries faced with similar issues caused by digital upheaval, some banks had begun rethinking the roles of their employees and their organisational structures. Beaumont had been studying some ideas regarding multi-skilling of employees and job rotation. Within CCU, for example, the call center had always been the entry point for new bank agents, a stepping stone to becoming an agent online or within a branch. But agents' roles within CCU had never remained completely separated, as bank agents were sometimes called upon to substitute or bring additional support to call center and online agents when staffing requirements dictated.

Also, as a customer- and employee-owned bank, training and employee retention had always been management priorities. In comparison to the industry average of spending 3.5% of total payroll expenses on training, CCU was currently spending 6%. In addition, CCU's Head of HR, Isabelle Declercq, had proposed making two years of university undergraduate study the minimum requirement for new hires, thereby ensuring that agents could more easily be trained and adapt to changes.

Beaumont met with Declercq to discuss how CCU could build upon these concepts of job rotation, and incremental skill-building and employee empowerment, to better service customers while ensuring that all employees remained motivated. Banks were currently organised by distribution channel: incoming calls went to a call center; online inquiries went to e-advisers; e-mails and physical contact were addressed through customer advisers in branch locations. But there were downtimes and periods of mobbing and stress in all branches. Did inquiries through separate channels have to be routed separately? Was there a means of smoothing out these periods of rest and stress between the channels? What kind of organisational model could address these issues?

Apart from changes in customer services, the digital transformation also mandated the development or hiring of a whole new set of personnel, with expertise in areas such as data analysis, business intelligence, web marketing, and legal and regulatory affairs. Banks had several options to find the right staff. Workers could be trained and promoted internally, recruited externally through headhunters, or the work could be outsourced to third party providers, such as some fintech firms were doing with the human cloud. Internal training had its limitations, especially with the technical side of technology. However, for external recruits, banks were now competing fiercely with each other for the limited talent pool available.

Unlike other banks, Beaumont sourced most of his bank's required technology developments in-house. This meant training and retaining skilled personnel, 'invaluable assets,' according to Declercq. At CCU, external hiring of experts was the exception, not the rule.

Conclusion

Beaumont considered his options, from the company's, the customer's and the employee's point of view. He called upon Declercq to help him ascertain the impact of the various options on the company's organisational structure and employees. According to Declercq:

> *We are in an activity where staff costs represent 60% of overheads... we believe that there is a future for a physical banking network, but that it must be associated with all the tools of remote banking, and all the possibilities of non-physical contact that technology allows. That is the bet that we are making, which is not so simple, as it will have to find a balance in terms of cost.*

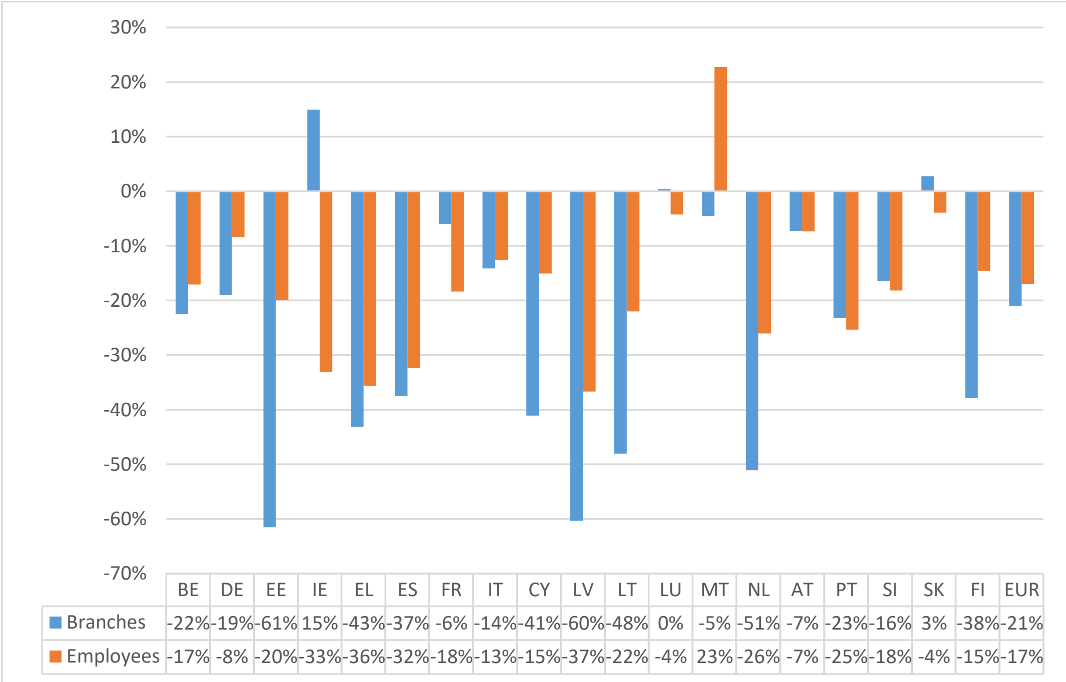
Beaumont considered which business model he should choose for the future of CCU, and how to adapt the model to best meet his customers' and employees' needs. Should he selectively close or restructure the branch offices, and if so, how? What would be the impact on employees and customers? Should he purchase a start-up fintech as his competitors were doing, and buy new technologies, or keep working on developing these technologies in-house with the bank's own IT experts? How could he adapt his workforce to face the new challenges of digitalisation, and what tools could he provide to help them in their new jobs?

As Declercq summarized: 'We're trying to find the resources, ideas and forecasts in our internal knowledge base. And since we are very decentralized, we can experiment.'

Appendix I: Shrinkage of the European Banking Physical Footprint

Changes in the Number of Bank Branches and Employees in the Euro Area

2008-2016

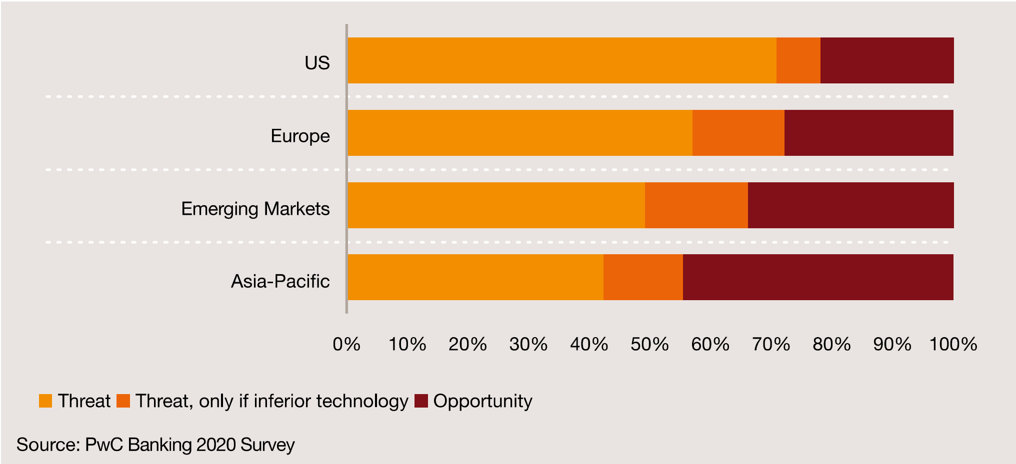


	BE	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	MT	NL	AT	PT	SI	SK	FI	EUR
Branches	-22%	-19%	-61%	15%	-43%	-37%	-6%	-14%	-41%	-60%	-48%	0%	-5%	-51%	-7%	-23%	-16%	3%	-38%	-21%
Employees	-17%	-8%	-20%	-33%	-36%	-32%	-18%	-13%	-15%	-37%	-22%	-4%	23%	-26%	-7%	-25%	-18%	-4%	-15%	-17%

Source: European Central Bank Structural Indicators reports for 2011 and 2017; European Parliament IPOL EGOV briefing 'Overcapacities in the European Banking Sector', 2017 at:
http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/602098/IPOL_BRI(2017)602098_EN.pdf

Appendix II a: How Retail Banks View Non-Traditional Competitors

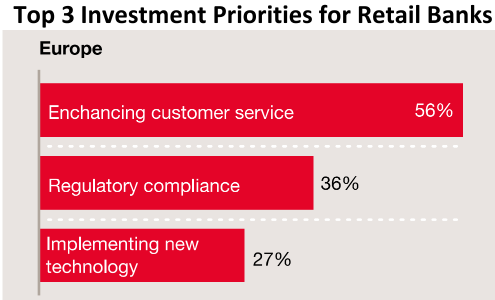
Fintechs - Threat or Opportunity for Traditional Banks?



Appendix II b: Challenges and Investment Priorities for Retail Banks in Europe

Top 3 Challenges for Retail Banks

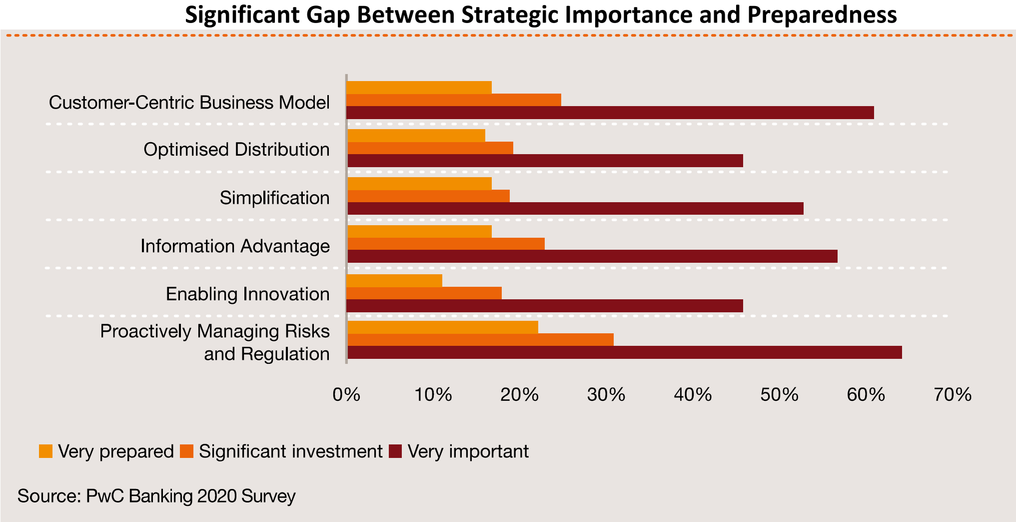
Top 3 Investment Priorities for Retail Banks



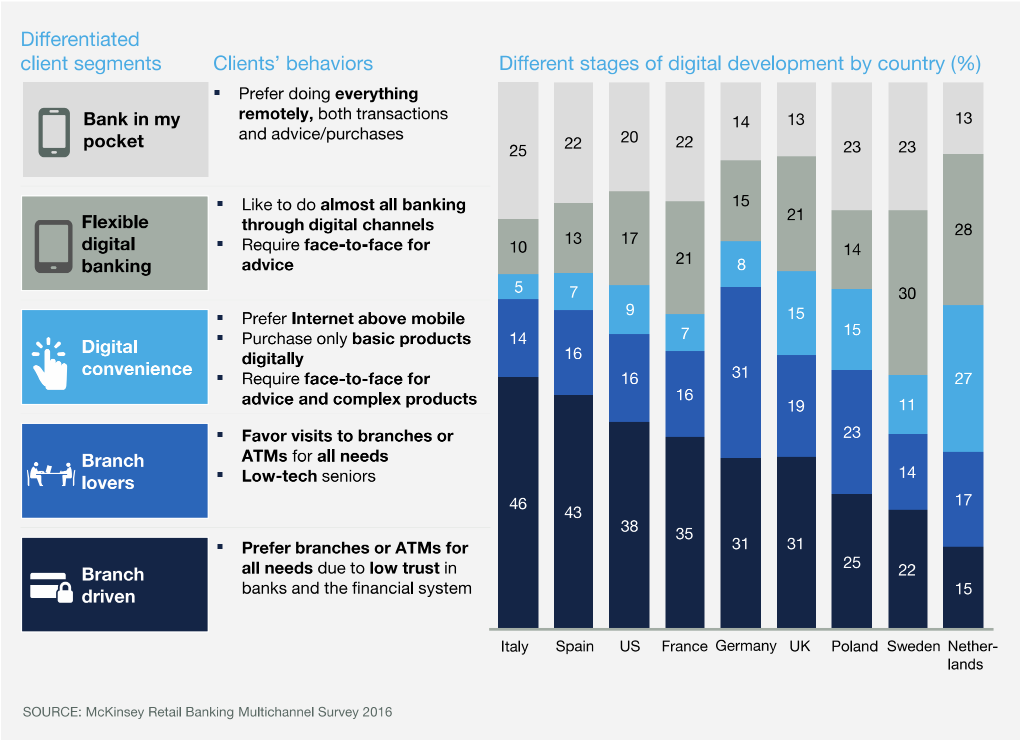
Source: PwC Banking 2020 Survey

Appendix II c: Strategic Priorities for Retail Banks and Perceived Readiness

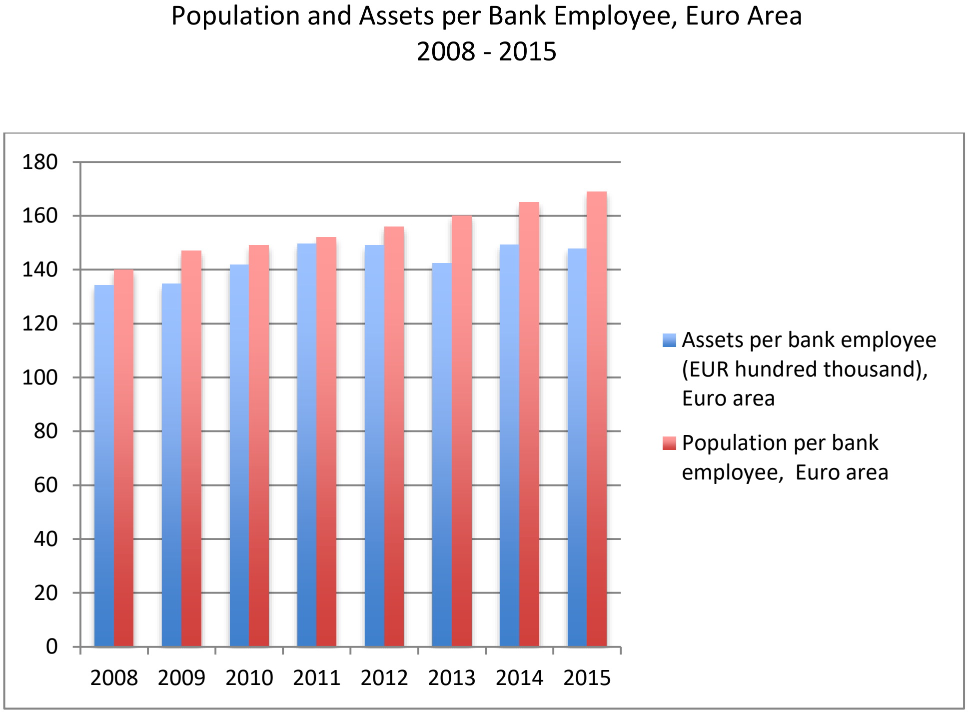
Significant Gap Between Strategic Importance and Preparedness



Appendix III: Differentiated Client Segments across Banking Channels



Appendix IV: Changes in Population and Bank Assets per Bank Employee



Source: ECB Report on financial structures October 2016, table 10, p. 77; author summary