Constructing the branch of the future

'Hi-tech, high touch' is the mantra of many banks looking to revamp and revitalise their branch networks. But after years of increasing digital interaction, declining footfall and extensive branch closures, can banks entice customers back into the branch? Joy Macknight investigates.

Retail banks in mature financial markets have slashed their branch networks over the past decade. In the EU, branches per 100,000 adults fell by 28.7% between 2009 and 2016, according to World Bank statistics. A recent *Wall Street Journal* report indicated that more than 1700 US bank branches were shut down in the 12 months ending June 2017, while research by the BBC found that one in six branches of the big four UK high street banks closed in 2017.

There are three main reasons for the reduction in branch numbers. First, banks are undergoing severe cost cutting due to a historically low return on equity (ROE). "For the seventh consecutive year, the industry's ROE is stuck in a narrowly defined range, between 8% and the 10% figure that most consider the industry's cost of equity. At 8.6% for 2016, ROE was down a full percentage point from 2015," said the McKinsey Global Banking Annual Review 2017. Branches are expensive and account for half of operating costs at some banks.

AGE OF CONVENIENCE

The second reason for dwindling branch numbers is technological change. With the arrival of digital authentication techniques – such as voice and fingerprint biometrics and digital signatures – as well as the advances in online and mobile functionality, there are many more tech-friendly experiences for time-pressed consumers. "The modern age of convenience is coming to banking at an unprecedented level of functionality," says Zubin Taraporevala, senior partner at consultants McKinsey.

The Royal Bank of Scotland (RBS), for example, has seen a steep increase in customers using the RBS mobile app since it launched five years ago – now up to 5.5 million. "We think about the mobile app as the bank in your pocket," says Jane Howard, managing director for personal banking at RBS. "A customer can use their mobile phone to transfer money, look at balances, apply for loans within seconds, apply for or reset their fixed-rate mortgage, and open a savings account. It has fundamentally changed the game."

As she indicates, technology has also fuelled the third reason for paring back the branch network: a change in customer behaviour. Since 2014, the number of customers using RBS branches has fallen by about 10% a year, a steady decline that has not yet plateaued, according to Ms Howard. Today, less than 1% of RBS customers visit a branch once a week.

Most banks report a similar decline in footfall: for example, 50% of CaixaBank's transactions now occur via online or mobile, while at Emirates NBD the figure is 90%. According to Boston Consulting Group's survey, published in its 'Global Retail Banking 2017' report, 43% of customers want purely digital interactions, up from 28% in 2015. Digital channels make up 80% of all touchpoints, compared with 60% in 2014.

BRANCH COMMITMENT

However, the continuous waves of branch closures have raised red flags for community organisations and governments that are concerned with financial inclusion.

IN OUR EXPERIENCE, IN A TECHNOLOGY-DRIVEN WORLD IT IS EVER MORE CRUCIAL TO GET THE HUMAN ASPECT ABSOLUTELY RIGHT

Suvo Sarkar

The worry is that some segments of the population – such as elderly and less digitally savvy citizens, as well as small and medium-sized enterprises (SMEs) – will be most affected if their local branch closes.

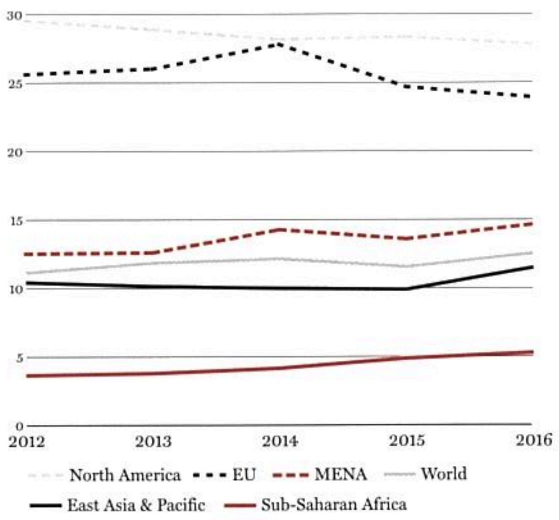
In February 2018, a UK House of Commons' briefing paper on bank branch closures said: "The public and government have worried over the seemingly remorseless decline in the number of bank branches in high streets and rural areas for at least 30 years... It is feared that the impact of closures will be felt most in rural areas and places where no viable alternative exists." This is despite major UK retail banks signing up to the Access to Banking Standard, which came into effect in May 2017 and committed them to community engagement and impact assessments.

Some banks view a commitment to local communities as part of their social obligation. For example, CaixaBank is the sole bank in 280 towns or villages in Spain and has pledged not to exit these, or other towns where one competitor remains.

CEO Gonzalo Gortázar says: "Financial inclusion is part of our corporate social responsibility view of the world. Therefore, we are prepared to accept a metric that differs from profit maximisation. At the same time, we are exploring how to use technology to be more efficient and run branches with one staff, or a part-time employee in some situations, instead of exiting completely."

A sudden disappearance from the high street can also send a worrying signal to customers. Portugal's Millennium bcp was conscious of public opinion when it »

Number of commercial bank branches
per 100,000 adults



Source: International Monetary Fund, Financial Access Survey

dramatically reduced its branch network in 2012 as part of a restructuring programme. In the main cities, the bank only closed smaller branches. "We decided to have bigger branches in high visibility areas, so sometimes we closed two branches to open one that is better located," says Rui Teixeira, board member responsible for retail operation at Millennium.

FACE-TO-FACE STILL COUNTS

Many banks are realising their branch footprint is an important differentiator for incumbents versus online-only challenger banks. RBS's Ms Howard says: "In contrast to new entrants that only offer a digital offering, we believe there is still value in a face-to-face offering, especially for more complex interactions such as account opening, mortgages or loans."

Daniel Latimore, senior vice-president, banking, at research firm Celent, agrees. "Branches are particularly important in those moments of truth where customers need advice or extra face-to-face conversations to get them over the purchase hump," he says.

And Diana Kearns-Manolatos, chief marketing officer at consulting and technology company Synechron, adds: "The branch is a different customer acquisition channel that banks can use to bring customers in, which gives them an edge on the fintech challengers that only have digital channels to pursue their customers. Banks already have a bricks-and-mortar footprint and, if they can digitise it in a way that brings in the e-commerce value-add, they can use new techniques for customer acquisition, such as geotargeted beacons on mobile phones."

A survey by Synechron and retail financial services association Efma, published in the World Branch Report 2017, found 88% of respondents believe physical branches add value to customers and will play a role in the future of banking. In addition, 63% of respondents said they are planning to change their branch model in line with digital transformation.

TRANSFORMATION STRATEGIES

The Efma/Synechron survey found that the top areas of focus for branch transformation are: improving customer service and engagement; changing the role of branch staff; and introducing digital interactive experiences and self-service automated technologies.

Most banks talk about a 'hi-tech, high-touch' approach to transforming branches, and are deploying new technology such as video conferencing, virtual assistants driven by artificial intelligence (AI) and cash-recycling ATMs. The goal is to move transactions out of the branch so the in-branch experience is focused on value-added services.

For example, Bank of America, which recently announced plans to open 500 new 'financial centres' over the next four years, as well as redesign more than 1500 branches with new technology, furnishings and layouts, wants to develop its centres as "client destinations", says Dean Athanasia, president of preferred and small business and co-head of consumer.

"Our customers don't have to come in [to do a transaction] because they can interact with us through digital channels, but they choose to visit the branch to meet professionals face to face and receive advice, including on using our digital and technical capabilities," he adds.

The bank rolled out video conferencing in 800 branches, and in March began launching its virtual assistant, Erica. It is currently testing 19 fully automated financial centres, which rather than staff, will have a video concierge, or avatar, walking and talking with the customer to help them understand the centre's capability and escort them to the appropriate business space. "We will continue to experiment and determine what clients like and how they want to bank, interact and invest in the future," says Mr Athanasia.

Meanwhile, RBS launched an AI-driven chatbot called Cora in early 2017, and went live with customers using webchats. Cora can answer 200 basic banking queries, with more than 100,000 conversations a month, and has also been rolled out to NatWest customers. "We found that customers love it and [we] are now exploring other uses for Cora," says Ms Howard. In February, the bank announced a new Cora prototype, a highly life-like digital human or avatar, which is being trialled with 50 customers. RBS is also using AI to help its staff – called 'human augmentation' – and rolling out tablets for better customer engagement in the branch.

IBERIAN INNOVATION

Over in Spain, CaixaBank has equipped its staff with 32,000 smart PCs or tablets to cover 99% of banking transactions, enabling them to move about. "Branches are a point of reference, but staff can operate in a branch with an app or outside a branch, visiting a client in their headquarters or domicile," says Mr Gortázar.

The bank opened 160 branches in large urban centres at the end of 2017 in a new 'store' format with no cash service. Echoing Mr Athanasia, Mr Gortázar says: "Customers don't go to the branch to change money or access a cash service, but to discuss changes in asset alloca- »

tion because they are getting older, expecting a child or want the latest Samsung phone. We need to be imaginative. The branch's role must change but the branch itself is not likely to disappear in the foreseeable future."

In Portugal, however, cash remains dominant and Millennium bcp's new branches are designed to address the demand. Thus, in addition to video conferencing and digital signatures to enable digital interaction, Millennium revamped its branches so that cash transactions can happen in every position – there is no teller position. "We concluded that even cash transactions present a sales opportunity – we call it service to sales," says Mr Teixeira.

Additionally, the bank installed Millennium transaction machines (MTMs), which facilitate 24/7 banking. Importantly, customers can deposit and withdraw both coins and bills, which is useful for merchants and small businesses.

Cash recycling is a growing trend, according to Ben Gale, vice-president and managing director of UK&I at Diebold Nixdorf, which manufactures cash machines. "We now have ATMs that can stand on their own for several months, which reduces the cost of moving cash," he says. "Polymer notes, once bedded in, ensure the delivery of the right quality of note every time."

DEVELOPING ECONOMIES

Unlike the mature banking markets, branch networks are still expanding in developing markets. However, banks in these markets are also looking at how to become more efficient and use new technologies to gain a competitive edge.

A case in point is Nedbank. During 2010, the South African bank needed to improve its positioning in the marketplace. Instead of bypassing the physical network entirely and growing via a digital-centric approach, Nedbank chose to invest in expanding coverage of the bankable population by increasing its branch network. This decision also aimed to address financial exclusion, primarily through ensuring access to financial services points of presence across the country.

According to Ciko Thomas, managing executive, retail and business banking, at Nedbank: "Financial inclusion is a big challenge in our market, with at least 35% of the bankable population outside the banking system. Theoretically, digital can help to address this challenge; however, there is a lack of enabling infrastructure in South Africa. We still need 'high-touch' representation to overcome barriers such as education, language and literacy levels, and a physical estate is one of the best enablers for clients."

A large part of Nedbank's physical distribution investment relates to the reformatting of branches to be relevant in a 'digital' future. "We are digitising the entire way we deliver customer experience, which is having a huge impact on how we think about physical representation," says Mr Thomas. "As well as putting in physical infrastructure, we need to think about digital infrastructure in terms of content and format that is radically different in the types of products and services that we currently offer clients."

To Mr Gale's point, the bank implemented cash-recycling ATMs, not only to reduce the amount of cash held in branches, but also improve convenience for its clients. It also launched video banking, effectively moving customer conversations from the branch to contact centre staff. Nedbank invested in an 'interactive teller' capability, which comprises a kiosk device offering cash and related services. Clients can connect directly to a contact centre through this device. The bank completed a pilot 18 months ago, and is now expanding the deployment of these devices in branches.

In Johannesburg, Nedbank is experimenting with the 'N Zone', a fully digital branch where customers can use technologies that deliver virtual and augmented reality banking. "That is the next frontier," says Mr Thomas. "Not only are we teaching clients about the core banking services, we are also educating clients and preparing them for digital banking."

BRANCH IN A BOX

In Vietnam, Tien Phong Commercial Joint Stock Bank (TPBank) wanted to expand its branch network in a much faster and more cost-effective way. Working with Scale360, a UK-based fintech start-up, the Vietnamese bank rolled out an auto-kiosk concept, called LiveBank. It has opened 12 LiveBank digital branches over the past two years and plans to roll out a further 50 pods in the coming year.

According to TPBank's head of retail banking, Dinh Van Chien, LiveBank achieves several objectives. It supports the 24/7 digital banking strategy, serving as a bridge from cash to cashless transaction in the process of moving to a cashless society in Vietnam; serves household/micro business customers who always have cash at the end of the day; and drives significant cost savings compared with a traditional branch.

"It is an essential part of our omnichannel ecosystem, which combines a wide range of physical touch points and digital channels. All of the touch points and channels in the ecosystem complement and leverage each other," says Mr Chien.

In addition, TPBank rolled out eCounter, which uses RFID (contactless) card technology to recognise and welcome customers, as well as populate the customer information on the teller's screen. Like other banks, it is using video conferencing in LiveBank branches to operate 24/7 with assistance from a remote teller/agent at the call centre. It has also rolled out 'e-know your customer' for faster customer onboarding and transaction processing. For example, a customer opening a current account can receive an ATM card within minutes.

MIDDLE EAST NETWORKS

As in Africa and Asia, branch networks in the Middle East are continuing to expand. Suvo Sarkar, senior executive vice-president and group head – retail banking and wealth management – at Emirates NBD, is convinced branches will not disappear in the near future. "In fact, in our experience, in a technology-driven world it is ever more crucial to get the human aspect absolutely right – hi-tech meets high touch," he says.

Following the global trend, branch networks and formats across the region are undergoing a significant transformation. Mr Sarkar believes the number of branches will fall, and that smaller and more efficient formats and larger areas for customer self-service will dominate the branch of the future. "We are renovating our branches to make them more digitally enabled and more service focused," he says.

Emirates NBD is using tablet-based servicing solutions that allow customers to be served instantly when they walk into a branch, thus reducing waiting times. Mobile-based queueing tokens can be obtained by customers beforehand and so reduce time spent at the branch.

The bank is also using digital walls to provide easy access to product information to help customers decide on the right solution for their needs. Mr Sarkar says: "We are also opening digital-only branches that allow customers to carry out a range of transactions and product applications completely DIY, however with trained service ambassadors on hand to help if needed."

THE FUTURE BRANCH

Looking over a 10-year horizon, Nedbank's Mr Thomas believes that mobile will increasingly replace the branch as primary interaction point between bank and customer. "However, there will continue to be a place for branches, especially in societies such as South Africa, where cash still dominates, to support small-scale trade activities, remittances, payments and social services," he says.

But elsewhere, governments are actively promoting a 'less cash' society, the Nordic nations being prime examples. In Norway, for instance, only 6% of payments are made in cash. "In 10 years' time, I don't think we will be going to ATMs and getting cash, so customer experience will become increasingly important as the branch becomes a physical extension of the digital brand," says Ms Kearns-Manolatos.

RBS's Ms Howard believes retail commerce and retail banking will see greater convergence in future, and she points to the rise of café-style branches. "Customer expectation is to talk about finances somewhere comfortable with a coffee. Therefore, if a coffee shop wants to have space in our branches, then we would get better use from our space and customers can have enjoyable experience – so it is a win for all parties."

Hubert Knapp, chairman of Scale360, is looking to take the store concept a step further. In addition to the working with TPBank, Scale360 is also working with LQID, a soon-to-launch challenger bank in the UK, which will also feature a marketplace.

"The LQID marketplace combines shopping with banking, and people can also start their own shop directly in the app," he says. "We see a future where more people have an entrepreneurial spirit, and this gives them a way to supplement their income by selling fashion items, art work or vegan food in a social marketplace."

While Mr Athanasia is not convinced by the store-café concept, Bank of America is providing space in its financial centres for small business customers, such as local artists or jewellery makers, to display their wares. "It is something we do for our clients that is unique and another way to build traffic in the branch. But we are still a financial institution and our greatest asset is ability to give advice and help individuals with their financial lives," he says.

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COVER STORY
THE FUTURE OF BRANCHES