WHITE PAPER

BANK BRANCH RATIONALIZATION – BACK IN VOGUE!

Abstract

Rationalizing branches is an exercise that banks carry out on a regular basis based on the evolving needs of the customer, the footfall at the branch, demand for the service, and various other factors. However trimming branches has increased multifold in the last year and a half due to the pandemic. This whitepaper explores the various changes in customer preferences that has led to this change. It looks at reasons behind the shift from physical to digital banking, the various functions that have gone digital, why it is extremely important for banks to re-evaluate their branches post-pandemic, and, with the help of examples, investigates the advantages of fewer branches in the current situation.

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Introduction

Banks across the globe are slowly and steadily trying to get back to normal. However, will things go back to the pre-pandemic days? Probably never. Hence the need to stay relevant is key. Take Roger Federer for example, who was dominating the tennis world from 2003 – 2012. However, after a slump of bad form in the next couple of years, he realized that the game is changing and becoming more powerful than before. He changed his racquets in 2014 and immediately saw good results by reaching the finals of 2014-15 Wimbledon and won 3 more slams after the change of racquet. There is an important management lesson that we all can take from here – his persistence to stay relevant with the changing times. The banking industry is no different. Banks that stay relevant to changing times will be more successful than others. As customers are getting more digital savvy, their banking preferences are changing and hence banks need to increase the pace of digitization. The journey towards Digital Transformation existed for the banks even before Covid-19, but the pandemic has accelerated this and is forcing banks to implement changes rapidly and bring in more value for them as well as for their customers.

With advancements in Artificial Intelligence, Open Banking and Analytics, the majority of banks are increasing their investments in digital services and a part of this investment is being sourced from branch closures. The increased demand for these services amid pressures arising from the pandemic has caused banks to strategize and execute the closure of their branches. The trend across major geographies shows an increase in digital banking and a reduction of branches.

- The rate of bank branch closures since 2012 is doubling every 3 years in US. The study by Self Financial Group on how consumer bank branches have changed predicts that branches would disappear by 2034[1]
- UK also saw more than 4,000 bank branches being closed in the last 6 years with 368 closed in 2020[2]

Why is a shift happening from physical to digital banking?

There are many factors that are necessitating this shift from physical to digital banking. The factors could be different for banks and customers, but the focus is the same. The pre-Covid factors were – a superior customer experience, operational cost savings, convenience, etc., whereas the post-Covid world necessitated the need for accessing banking services in a contactless manner bringing a change in customers' behavior in the usage of online and mobile banking. Let's look at the various factors below:

- Customer **traffic in the bank branches is getting reduced** as digital channels are used to carry out banking activities. The reduced traffic is triggering the closure of the branches to **save costs**
- Banks are closing traditional branches and are opening **new flagship branches** with many self-service options for customers. For e.g., HSBC Bank Malta had its focus on digital banking services by **modernizing its branch network** even before the pandemic and opened a new 'flagship branch' in May 2021[3,4]
- The low-cost and hyper-personalization themes of neo banks (servicing the customers without physical branches) are quite appealing to big banks. Openbank (Santander), DiBa (ING), Mox (backed by Standard Chartered) are some examples in this category
- The rise of alternative payments methods and a serious decline in cash payments post the pandemic has also reduced the need of bank branches
- Increase in the usage of mobile/online banking by customers is also making banks reconsider branch expansions. In a survey conducted by Chase, 54 % of consumers said they used digital banking tools more[5] and as per the KeyBank 2020 Financial Resiliency Survey, 85% of Americans preferred using digital tools to complete the financial transactions[6]
- Automation and AI helps to provide self-service options to customers. With the use of AI, banks can automate routine employee tasks at branches like signing, accepting, and receiving cheques, documents, cards, etc.

With digital banking the banks have larger network than branches and hence can reach a wider customer base. The benefits for customers like Bank from anywhere and anytime, Personalized Alerts, accessing banking services without the long waiting times are some other reasons that support the view that digital banking is the preferred mode.

Banking functions that have gone digital

Even in the pre-Covid era, digitalization has been an important part of banking but post the pandemic the speed of transformation is on new highs as more and more customers are preferring to bank online or through other digital means.

Banking functions like KYC, Payments & remittances, Mortgage Applications, Automated Credit checks, buying Insurance, Investments, Credit Card operations and more have taken the online route for a long time but in recent times more functions are going online. To name a few:

- **Mobile Cheque Deposit** – Banks are now allowing the customers to deposit cheques through the bank's mobile app with the convenience of being at their homes
- **App based digital assistants** are being rolled out within the banking apps which help customers in resolving their basic queries and in transactions like replacing the card, monitoring balances, disputing card charges, etc.
- **Mobile Cash** – Mobile app/wallet can be used to withdraw cash from ATMs, in spite of not having a card when you visit an ATM.[7] E.g.: Chase bank's "Quick Cash"
- **Online digital document signatures** with security over the mobile banking app are proving to be a great replacement for submitting documents or signing them personally at the branch
- **Voice commands are now being used for banking operations** and as an added layer of security to access any information stored in the banking app
- **Digital wallet** feature in the banking app allows customers to pay for products/ services right from their device
- **Adoption of Real Time ID Verification** using biometrics is on the rise for digital onboarding of customers or for meeting KYC requirements
- Open Banking is enabling banks to access various data sources leading to **automatic credit checks,** thereby facilitating an instant loan approval
- **The roll-outs of 5G, video analytics, facial recognition** are being used for better branch monitoring and customer identification. The faster connectivity of 5G is also helping banks set up **Pop-Up branches in remote** areas to serve their customers

Why "branches" need re-evaluation post-pandemic

"Desperate times calls for desperate measures" is a well know proverb but it could not have been more appropriate for the banking industry which has seen a heavy uptick in digital banking in the last year. Working from home in the banking industry was unheard of a few years back, but the pandemic has forced banks to be connected from anywhere. Hence the question of branches needs re-evaluation.

Though banks have been innovative in the past decade w.r.t. the digital offerings, the pandemic has literally forced the banks to close branches in a few cases, while some banks have been proactively taking efforts to reduce physical footprint as they do not want to be left behind in the sea of changes expected in the way bank operates. Various large banks with huge branch networks have gone out of their comfort zone to reduce branches and yet be more connected and more impactful in the recent past. In a way, the pandemic also made more customers embrace virtual banking for good.

Let us look at various top banks that have reduced or announced reduction of branches in in the recent past:

Region	Bank Name	Description	Reason	Potential Impact
Americas	Wells Fargo	To reduce up to 20% of office space by 2024. Closed 200+ branches in 2020; Another 200+ by 2021[13]	Part of their cost cutting plan	Will potentially increase tech budget / improve savings
Americas	Citigroup	To exit Retail Banking Business in India, Bahrain, China, Indonesia, Korea, Australia, Philippines, Poland, Russia, Taiwan, Thailand, and Vietnam Also closed branches in the U.S. in lieu of the pandemic[14]	To focus more on Wealth Management business and aims to become what they call "Light Physical Footprint"	Increased digital capabilities
Americas	U.S. Bancorp	To close ~15% (~400 branches) of branches by 2021[15]	Have seen clear uptick in their digital transactions	Customer experience
Americas	Fifth Third Bank	Closing dozens of branches[16]	Help pay for Digital Upgrade. For e.g., Momentum Banking, a digital bank with personal support[17]	Helps cut costs that can be invested in digital transformation
Europe	Deutsche Bank	Downsizing branches - ~150 to be reduced by 2021[18]	To control costs and focus on moving to a hybrid working model	Helps achieve their 20% Workforce reduction target
Europe	Commerzbank	Plans on cutting hundreds of branches[19]	Digitalization & cost cutting efforts	Will help invest in technology
Europe	HSBC	Reduce ~80 branches in the U.S. alone[20]	Reshape network as part of digital transformation effort	Will reduce their operating expenses thereby reducing their Cost to Income Ratio
APAC	ANZ	Reduce branch footprint and have branch banking for only complex issues like Home Lending, financial guidance, etc.[21]	Customer preference to bank online and reluctant to switch back to branches	Cost cutting

Advantages of fewer branches in current situation

Saves time & cost: The decision making is super-fast in a system-oriented approach. Also, the cost of running a branch is higher which increases overhead expenses. Less branches mean more savings. For e.g., Less branches will help save on infrastructure, electricity, staff costs, etc.

Remove imbalances in serving customers: Not all branches can have the same look, feel and service for the customers. The banks in urban areas are much more sophisticated as compared to a rural/ regional center. Digital offering can serve all customers the same as no area can be neglected

Bank from anywhere: Customers can bank from anywhere which increases the customer delight quotient

Greater safety: In the current situation, the safety of employees/ customers also is of paramount importance and banks can score a few brownie points from their employees as well by allowing them to work from home

Disruptors are keeping traditional banks on their feet

FinTechs have always been pushing traditional banks to keep re-inventing themselves to stay in the game. With Big Tech companies like Google, Apple entering the financial services industry, the competition is even more intense. FinTechs and tech giants will fancy their chances of gaining more market share as customers look for digital alternatives to branch banking. However, one advantage that the traditional banks have is that they have the resource/infrastructure to serve large sets of customers. FinTechs focus more on a particular set of offerings while large banks can provide full stack banking, which will be difficult to compete against.

Firms like Amazon is into lending, Apple is into payments while Google is into payments and digital banking. These are some serious competitions for traditional banks, and they need to up their game with respect to digital offerings if they intend to stay ahead.

With trimming of branches being the new normal for banks, they can partner with the FinTechs to enhance customer experience and thus retention. Banks can also target to acquire smaller FinTechs with niche offerings.

Conclusion

"Rationalization is the Way of the Future" - Many Global Banking executives feel that the increase in digital banking could lead to diminishing of the branch-based model. However, bank branches are not going to go away completely. Most banks, despite announcing reduction of branches, have not completely done away with their branch model and still have branches as part of their overall strategy. This clearly shows that banks are thinking in terms of rationalizing their branch strategy.

A hybrid model will be the "way of the future" where there is a healthy mix of in-person and virtual banking. Some of the basic functions like opening an account, dropping a cheque and resolving customer queries can be replaced with online account opening and e-cheques respectively. Bank branches can primarily cater to more complex processes like financial guidance, home lending, building personal connects with customers, etc.

"Sharing is Caring" applies for Banks too: Very recently HSBC, NatWest, Barclays, Santander, and Lloyds announced that they will be sharing a branch location in a few UK towns.22 They said that in smaller UK locations with less population, they will share a branch that is open to business for customers in different days of the week for each of the banks. Some UK banks are also exploring the options of setting shared community banking hubs. This could further result in individual branch closures. Currently this is at an early stage but is the start of a real game changer that could open up an ocean of possibilities on how future models may evolve. The challenge for banks will be how they plan on building their bank of the future, with the right mix. Only time will tell.

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