



## PHYGITAL BANKING – THE FUTURE OF BANK BRANCHES

### Abstract

Digitalization is among the terms that have come into popular parlance in the last couple of years since the onset of the COVID-19 pandemic. It has undoubtedly become critical for all industries, including banking. However, does that mean there will be no need for physical bank branches in the future? The answer: Many top banking executives strongly believe that physical bank branches will be required in the future as well. In this paper, we explore the need for physical bank branches and what a bank branch will look like in the future.

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## Introduction

The pandemic is on its last legs. While banks continue to re-examine their strategy, any changes they make to their operating models should be dynamic and flexible as no one knows what the future holds. Until now, neither has any traditional bank completely shut down all its branches nor are there any plans to do so in the future. Though there has been significant consolidation, the need for physical branches has remained. One key reason for branch closure is cost – even though customers prefer having the option to visit a branch when necessary. Instead of closing branches, digital technologies can be effectively leveraged to modernize branches. Phygital branches, with a mix of physical and digital capabilities, are the way forward.

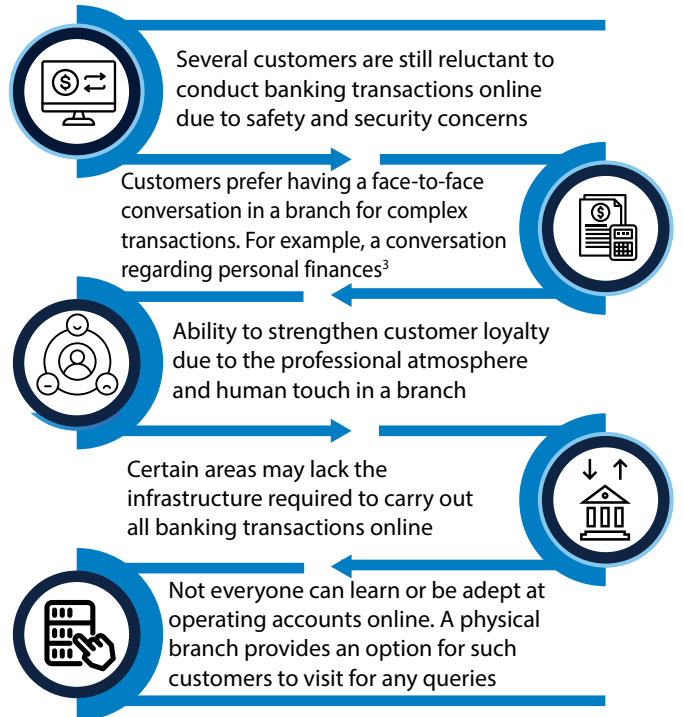
Branches form an important lever of a bank for brand building, acquiring new customers, and managing existing customers. Banks like Citigroup continue to put the thrust on adding branches as they affirm that branches remain at the heart of their relationship with customers. In Nov 2021, Citigroup announced that they would increase the number of branches in at least 6 markets in the USA. Gonzalo Luchetti, Citi's US consumer banking head, said, "We're a global bank. We want to connect locally with our customers."<sup>1</sup>

According to a May 2021 Sykes Survey:

- More than half of US respondents surveyed said that they visited a bank branch in 2021 for various purposes such as depositing money, opening an account, and for reasons related to managing their finances<sup>2</sup>
- More than 25% of the respondents felt that the ability to visit a branch is an important consumer bank benefit<sup>2</sup>

## The Need for Physical Bank Branches

Despite advancements and the convenience of digital or online banking, physical banks are still very much in demand. Some reasons are:



## Re-imagining a Bank Branch

Phygital is the way forward for branches. With all the technological advancements available to banks, banks can provide customers with a rich user experience in a branch with the aid of concepts such as metaverse and augmented reality. Customers may not prefer to visit a branch for low value transactions, but they are likely to go to a branch for complex needs such as getting a loan or a mortgage. In such situations, many customers would prefer a face-to-face conversation.

Here are some impactful changes that banks could make to create the perfect blend of physical and digital experience for customers in branches:

- **Agile counters:** The earlier branch model used to be a 1-1 counter format where each counter served a specific purpose like withdrawing cash or depositing a check. Banks can remodel their set-up to move into an agile counter format where a customer can directly walk up to any available counter. This will save times as well as space for banks
- **Self-service digital format:** At branches, technology can be used to provide self-service options for simple banking operations such as passbook entry and cash deposit
- **Interactive experience:** Banks are opening virtual centers or kiosks in their branches that can give customers an immersive experience using augmented reality to explain banking products and services or to collect promotional coupons
- **Techno branches:** Metaverse, augmented reality, and virtual technology are some of the technology interventions to look out for in bank branches of the future. Many banks are already implementing these interventions and it is a matter of time before this becomes mainstream
- **Video banking:** With the pandemic, many banks moved to video banking to enable customers to interact with bank personnel from the comfort of their homes. Banks can have designated video rooms in their branches to continue to extend this facility to customers



## Innovative Models in Use at Existing Branches

Complementing powerful technology with the face-to-face model at branches will ensure banks stay relevant. Here are a few innovations currently operational at some banks branches.

Innovation	Description
Café style	<p>A branch is set up as a café where customers are offered free wi-fi, served coffee and food. A banker walks in to talk to customers about banking services and offer assistance by coaching them on the bank's products. Capital One changed their branches to look and feel like a café, offering the services of an onsite banker while the customer enjoys their coffee or recharges their mobiles.<sup>4</sup></p>
Metaverse	<p>As metaverse is picking up, banks are experimenting with the setting up of virtual branches for a one-to-one consultation with bankers. KB Kookmin bank introduced a KB Metaverse VR branch testbed that allows customers to access various banking services by wearing a VR headset. Using this, a customer can get financial advice in the metaverse.<sup>5</sup></p>
Smart	<p>Banks are focused on providing the best experience to customers in branches with a combination of digital and in-person services.</p> <ul style="list-style-type: none"> <li>• Pop-up branches operate in small spaces and are deployed to reach unbanked communities. National Australia Bank has introduced branches with iPads and self-service technologies to service customers. They also have a mobile demo bar to educate customers on registering for internet banking. The staff own iPads and can assist customers using such mobile devices.<sup>6</sup></li> <li>• Flagship branches are strategically very important to banks. They are equipped with the most innovative technology and are designed smarter in comparison with traditional branches. These branches are at locations where they can attract customers.</li> <li>• TD Bank has an open concept floor plan-based branch which enables flexible interactions with clients. The branch does not have teller lines or designated spaces for different banking functions. Employees walk untethered with their tablets<sup>7</sup> ready to help customers as needed</li> <li>• Equipped with self-service technologies, branches of Banca Carige serve customers through self-service as well as secured video interaction with bankers<sup>8,13</sup></li> <li>• Regions Bank branches provide a balance between physical and digital banking with the addition of video banking ATMs that enable customers to select the basic ATM service or connect securely with a banker in real-time for service even during non-banking hours<sup>9</sup></li> <li>• BMO has put together smart technology and human assistance by helping customers through remote video tellers<sup>10</sup></li> </ul>
Shared	<p>Shared branches coupled with free ATMs have been able to provide access to cash services and can be adopted by banks struggling with branch closures. Banks were already dealing with reduced customer traffic in branches in the pre-pandemic world. The situation worsened with the onset of the pandemic, with more customers moving to digital banking channels. Nevertheless, there is demand for in-person services and access to cash. Here, the shared bank branch approach can help banks cater to customer needs and retain them.</p> <p>5 leading banks in the UK have agreed to share branches for their existing customers for the next two years, where they offer walk-in-appointments along with basic banking services. The shared branches also cater to small business customers where they can use the self-deposit facility and even get change from the hub.</p>

## The Branch of the Future

Banks are migrating from traditional branches to smart office spaces that are no longer called branches. New names for these phygital entities are hubs or centers.

Today, customers prefer a hybrid experience<sup>11</sup> where they want to use some self-service channels even as they continue to seek human interaction for specific operations. The new age branch model will couple digital

technologies with human touch for improved customer experience and a more personalized service experience. Digital technologies such as AI, 5G, AR, VR, and IoT will facilitate meaningful interactions between bank officials and customers.<sup>12</sup>

New-age branches have a self-service zone and an area where customers can get assistance from bankers.

## Digital technology for new-age branch models

### Self-service Zones

Service Offerings	Technology
ATMs and interactive teller machines	5G, authentication technologies – facial recognition, fingerprint scanners, e-signatures, etc.
Digital walls	Geo-mapping, facial recognition
Video conferencing rooms	AI, AR and VR
Video conferencing rooms	AI, AR and VR

- Interactive teller machines can make use of 5G to provide uninterrupted banking self-service to customers. Facial recognition and fingerprint scanners can help identify the customer and allow them to carry out their banking transactions
- With geo mapping and facial recognition, customers visiting branches can be identified and customized welcome messages can be displayed on digital screens
- Data analytics can be used to display product catalogs on interactive walls based on previous interactions and transactions with customers
- Video conferencing rooms with AR/VR screens can provide a novel experience to customers where they can interact with personal bankers or their avatars and get their queries resolved. For example, if a customer is interested in mortgage loan rates, then the screens can display graphs with various rates while a banker provides a walkthrough of the rates

### Bank Officials' Assisted Zones

Service Offerings	Technology
Sales services (creating awareness about bank's products)	Interactive dashboards, digital product catalogs, data and analytics, e-signatures, automation
Assistance in carrying out complex transactions	
Advisory services	
Security	AI cameras, contactless surveillance

- Humanoids fitted with sensors can track customers on arrival and use data analytics to offer personalized services to customers or guide them to a self-service zone or a banker
- In new-age branches, bank officials have access to tablets loaded with interactive dashboards and CRM software. The dashboards access the information of the existing customer and provide all details to the banker along with product recommendations/offers. Based on these recommendations the banker can engage in a more informed conversation with the customer. Similarly, bankers can support other customer needs such as those related to credit cards, loans, and deposit accounts
- Sales and advisory related queries can also be handled using the latest technologies, where the customer can be onboarded by simply scanning the documents required and with biometric authentication

## Conclusion

Digitalization of banks and their branches is the way forward to keep pace with changing customer needs. Personal connect goes a long way, regardless of the generation to which the customer belongs. By adopting phygital banking, banks can create a competitive differentiation with new-age branches that offer a hybrid experience to customers. Bank branches of the future will not be seen merely as offices for financial transactions, but will morph into social and networking hubs.

Banks must continue to invest in digital technologies to provide a rich, interactive, and personalized experience to customers in the branch with a combination of digital and physical touchpoints. At the beginning of 2020, no one expected that the next couple of years would see sweeping changes across industries and operations. Bank branches are no exception in facing a paradigm shift in the way they function, and physical branches as we know them today will continue to adapt and evolve with technology-based advancements.



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