GLORY

Branch Transformation:

Extending the Edge

EXTENDING THE EDGE

In one form or another, bank branches are in a continuous state of transformation. The term "branch transformation" is so broadly used that it is often difficult to define. But in the early 2000's, it certainly meant resizing and reshaping branch networks based on similar principles to those being utilised in distribution and supply chain operations.

Banks and consultants looked at "Hub and Spoke" models and determined that they could address the need to streamline and lower the total cost of branch operations, while still providing the ability to serve customers.

The basic premise was simple: start with a large, flagship "hub" branch and then radiate out to full-service branches, which in turn radiate out to smaller format branches offering a tiered set of services as you move outward along the "spokes". While the transaction points on this outer edge of the hub and spoke arrangement may be more convenient for customers, the services may be more limited – for example, self-service transactions delivered via an ATM vs broader services via a teller.

However, as banks began to roll out this wave of branch transformation, along came an innovation which has re-shaped the way the world interacts: the Apple iPhone and the beginning of the smartphone revolution.

Slowly at first, these mobile devices extended the edge one step further by providing an unprecedented level of convenience. The way people bank began to change, and just as banks started to work out how they would need to change to address this new mobile channel, the 2008 Global Financial Crisis took hold.

Against this backdrop, the focus of hub and spoke very quickly became more about how to deliver a minimum viable branch network. The end result? A spiral of fewer branches leading to customers seeking new, more convenient ways to interact with their banks, leading to less demand for branches, leading to fewer branches.

But less demand is very different to no demand.

In considering the right size of branch networks, the first question might be: Who needs to be served in branches?

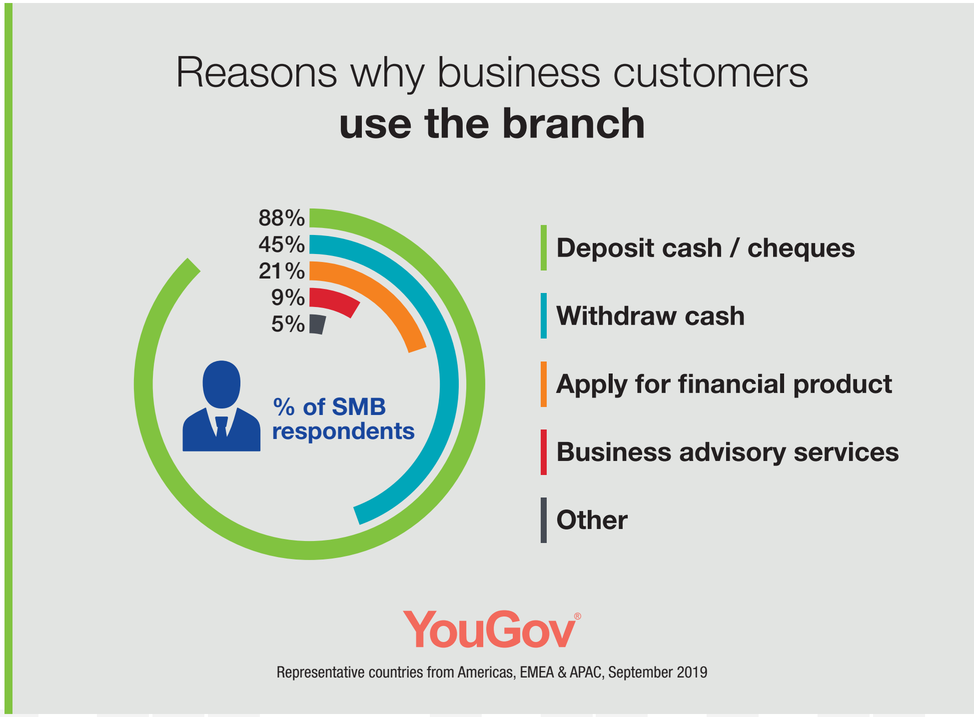
Despite the shift towards mobile and online banking, personal banking customers still value the branch. When they want human contact the branch is their preferred option. Perhaps not as frequently as in previous years but there is no question that many personal banking customers rely on their local branch, and the demand is more significant from merchants and other Small to Medium Enterprises (SMEs).

BUSINESS CUSTOMERS

Arguably, business customers and SMEs have an even greater reliance on the services provided by their local branch – particularly regarding services such as deposits and withdrawals.

The branch is critical for transactional services. For this reason, up to 40% of SME customers questioned in the same survey would consider changing banks if these services were withdrawn due to the closure of their local branch.

This presents a challenge. The physical infrastructure required to serve the needs of these SME customers creates costs – but they also represent strong advisory and lending opportunities for banks. Even though these financial products are not always delivered at the branch, the bank benefits from the presence of brand, familiarity and trust, ensuring they are one of the first choices for SMEs who seek these services.



EXTENDING THE EDGE: Business Customers

So, is there a way to provide these customers with the physical services that they need in a more efficient way that maintains convenience and brand presence?

Perhaps there is. There is clear evidence that the “spokes” are getting longer, and thanks to technology and automation the edge of where customers are being served is being extended.

- Services such as cash deposit and withdrawal can be made faster and delivered at lower cost, enabling new branch formats.
- New business models and concepts are beginning to emerge, such as shared business banking hubs. Several banks could share a single SME-specific location and infrastructure to deliver transactional services, with each contributing to operating costs.
- On-premise deposit and recycling are becoming ever more practical and cost effective for retailers. Banks who supply these solutions may also benefit from their brand being prominent in the back offices of their customers, leading to deeper relationships.

PERSONAL
CUSTOMERS

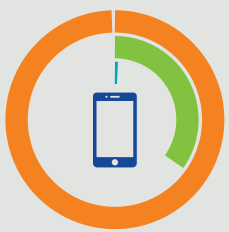
For over a decade, consumers have been steadily increasing their use and reliance on smartphones, changing the way they interact with businesses – and particularly with banks.

But the era of mobile hyper-growth could be coming to an end. Data from IDC suggests that worldwide mobile shipment growth has plateaued, even showing signs of falling in some regions. Like most technology innovations, mobiles are passing from being cool and desirable, to being utility – just a part of day-to-day life.

Apps have matured in a similar way. Flash, skeuomorphic tools have given way to real functionality and tight integration with other services. With so many apps to choose from, consumers are becoming far more selective about what they install. According to App Annie, the average user has around 100 apps installed, but only uses about a third of them regularly. Of these, perhaps only two will be financial apps.

And this is where the challenge is beginning to emerge.

Strip away branding, and one banking app looks and feels very similar to the next one. Innovative new features are often driven by fintechs without the overhead of legacy systems, and any new “killer feature” is only an investment, acquisition or short development cycle away for competitors.



Average Number of **Installed Apps** *(100)*

Average Number of **Apps used Monthly** *(35)*

Average Number of **Financial Apps** *(2)*

Source App Annie, EY, Banrate.com

On top of that, the rise of Open Banking and Open APIs means that customers can easily choose to manage their account and payments with third-party apps provided by small, agile Fintech start-ups, on platforms provided by Big Tech. Just because a bank provides the account, does not mean that customers need to use or interact with the bank’s app. It is now easier than ever to lose control and influence with mobile banking customers. Brand and engagement potentially take a back seat to functionality and convenience.

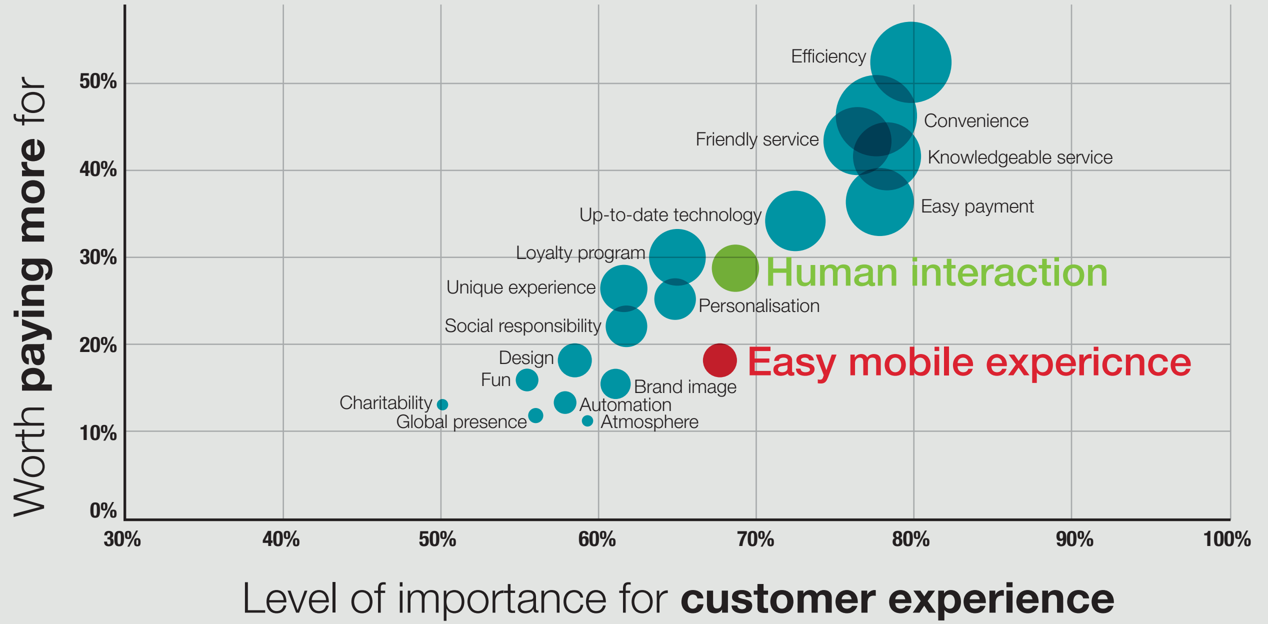
How can a bank stand out from the crowd and show their values, and avoid becoming just another generic app that does “bank stuff”?

Perhaps the answer to this loss of brand and engagement goes back to basics: **the customer experience.**

HUMAN
INTERACTION

In the recent Future of Customer Experience survey, PwC revealed that despite their attachment to mobile devices, people still prefer interacting with other people. Human Interaction is both more important and more valuable than the Mobile Experience. Paradoxically, as technology gets better, people want to interact more with real people – even in very technologically advanced countries and societies.

There is a strong argument that for banks to truly – and visibly – differentiate, they need to focus on human interaction by engaging and talking with customers face-to-face, in addition to developing effective digital and mobile channels.

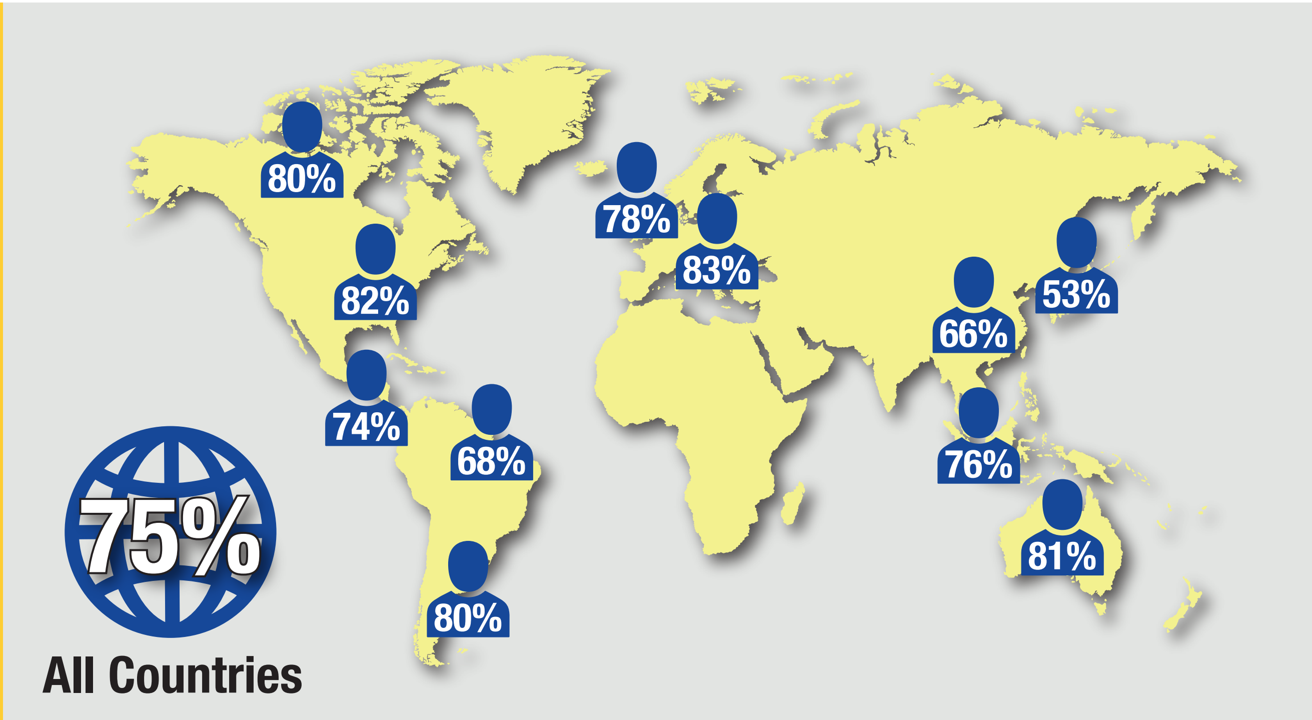


Source PwC Future of Customer Experience Survey 2018

However, as a consequence of the always-on, always-available, mobile-based services, consumers have a greatly heightened expectation of convenience. From their point of view, in a perfect world there would be a branch on every street, open and accessible whenever it was needed. People tend to care more about their value as customers, rather than the economic viability of delivering such a service.

HUMAN
INTERACTION [continued]

In the same report PwC highlighted that 75% of people want to interact with a real person more as technology improves. Could more physical transaction points be put where the consumers are, as they go about their increasingly busy and full daily lives?



Percent who indicate:
"I'll want to interact with a real person more as technology improves"

Source PwC Future of Customer Experience Survey 2018

HUMAN
INTERACTION [continued]

EXTENDING THE EDGE: Personal Customers

Similar to SME customers, banks can reach deeper into consumers lives – extending the edge of where they are physically served more efficiently, and more conveniently. Automation is once again enabling new services and business models, for example:

- Apps such as SoCash in Singapore, helping consumers find the closest or most convenient location to withdraw cash from participating local retailers – linking consumers who need cash with businesses who have excess cash and delivering benefits for both.
- Shared service locations like post offices. They're already in local communities and are equipped with the security and technology needed for simple transactional services which in turn are being used by banks to serve their customers.
- In Germany, some bank customers can carry out basic transactions at filling stations. This solution puts cash services in a location people need to visit every week.

These examples show how many physical banking services can be moved beyond the traditional branch, more integrated with retailers, and better connected with consumers' lives.

RECASTING BRANCHES

As it becomes easier to service customers both digitally and physically at their convenience, what is to become of existing branch networks?

Thousands of branches around the world have been closed, and repurposed as places consumers want to be: bars, restaurants, fast food outlets, community buildings and many others.

But banks obviously will not achieve their business goals by simply selling off their real estate and hoping someone else does something better with it. They need to re-imagine and re-cast their branches as places where their customers need, or better yet, want to be.

There are many examples of this type of radical branch transformation today, all of them offering services, connections, and community that bring value to customers, and often in prime downtown locations where people live, work and socialize.

Lounges, business hubs and coffee shops, all of which also offer full branch banking services. This is the difference between going in to the branch and getting a coffee, versus going out for a coffee with friends and taking care of your banking while you're there.

SUMMING UP

Starting early in the 2000's, banks started reimagining their branch networks, trying to logically optimise them to build an efficient infrastructure for customers.

As this process began, the world started to change, and the idea of the hubs shifted from places to people.

We are still, in many ways, catching up with this shift when it comes to branch networks. It is now time to catch up the rest of the way.

- Deliver the SME customers' services where they need them, by redefining the SME service edge to be closer and more convenient to the customer. This will result in lower cost of delivery.
- Extend the consumer services edge to the places where customers are going, each and every day.
- Re-cast branches as places where customers need and want to be.

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