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Digital Financial Solutions

Opinion piece

What the branch can learn from digital banking

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The mobile and online challenge

> "Do you know what our busiest bank branch is in the UK? It's our mobile app on the 7.15am train to Paddington."
> - Ross McEwan, Chief Executive of RBS Group:

We now spend about 2 hours per day using our mobile phones[1] and about 31 hours per month browsing the web from our laptops and desktops[2]. The rise of the internet and the convenience of mobile computing are driving a sea change in how, when and how often we interact with retailers, utilities and other services.

The way that we use banks has changed beyond recognition; 85% of Tesco Bank's transactions are conducted online and 72% of HSBC's customer interactions now take place over the internet or on the phone[3].

The number of smartphone banking users in the US has risen to 87m and some 53% of the US population will bank digitally at least once a month this year[4].

As internet and mobile banking usage has surged ahead the numbers of people visiting traditional branches has also fallen significantly.

> "[mobile banking] has completely altered the way our customers bank with us"
> - Jason Yetton, head of retail and business banking, Westpac

The proportion of transactions taking place in NatWest and RBS branches has fallen from 25% to 10% in just 4 years, whilst footfall at HSBC branches has fallen by 30% in 5 years. Some banks are even preparing for a future without branches:

> "The direction of travel is absolutely clear ... Opening branches now would be like BT putting phone kiosks back on the high street"
> - Anthony Thomson, founder of challenger bank Atom

For Thomson and others, however, it's not just a matter of going online to meet customer demand - it's about delivering better value by cutting out the significant costs associated with maintaining branches.

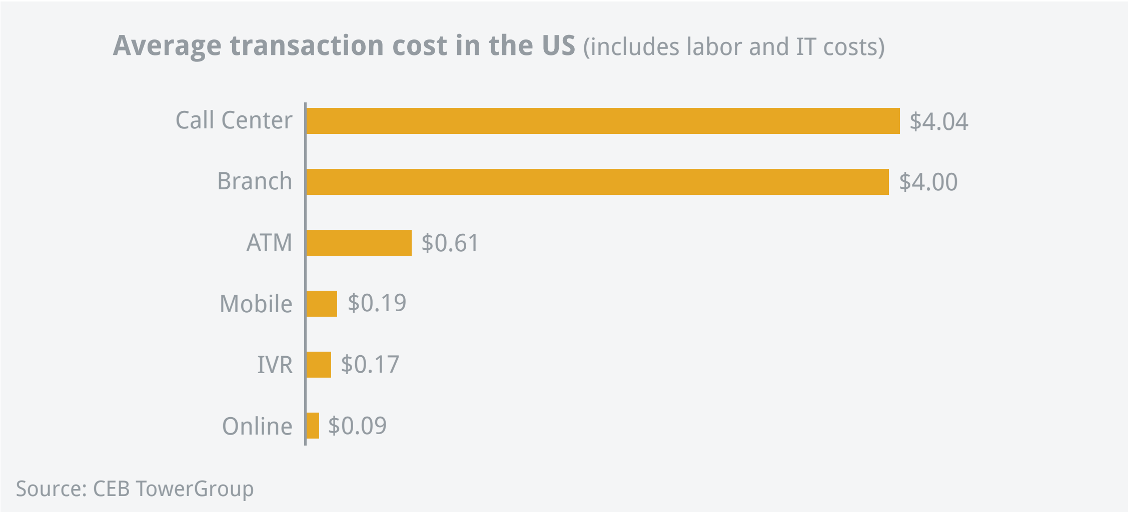
The challenge to branches comes not just from disruptive digital technology but also from their operating costs and mode of operation...

The profitability challenge

"Until now branches have been expensive but highly efficient billboards"
- Peter Carroll of Oliver Wyman

When it comes to banking, a branch network is the biggest of big-ticket items – for major retail banks the cost of maintaining a branch network can easily account for 40-60% of their total operating costs.

According to Tower Group, branch transactions are about 40 times more expensive than those conducted online[5].



"...those who rarely use the branch network are going to start asking why they are expected to pay for it."
- Anthony Thomson, founder of challenger bank Atom

Branches usually occupy a prominent and expensive corner of town and because of security concerns, even the smallest will usually have at least four people on site at all times, even though three of them may have nothing much to do.

Since the financial crisis the profitability of retail banking has plummeted:

- The fees that banks can charge have been slashed
- Capital requirements have increased substantially
- Lending margins have slumped because of low interest rates

As a result, about 15% of the current branch network is unprofitable and, according to McKinsey, European retail banks are currently losing money on about half of their customer accounts[6].

No wonder then that branch closures have become a regular feature of the news. In 2014 alone Barclays announced its intention to close 25% of its 1600 branches and Lloyds 200 of its own.

With all this pressure on the branch network it's easy to question their future, but branches still matter to both banks and customers...

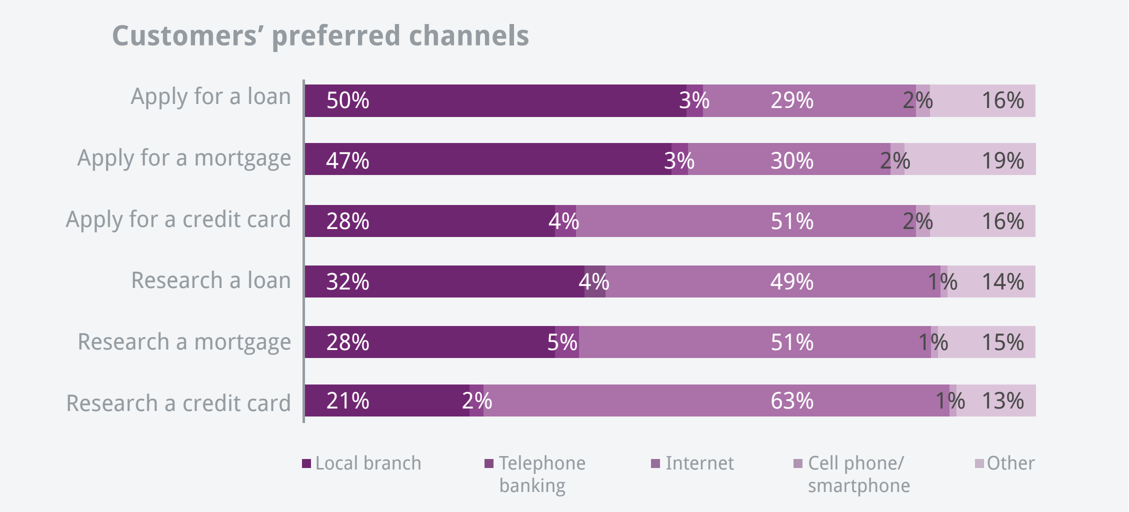
Why branches still matter

"... that location is where you think your money is."
- John Stumpf, Chief Executive of Wells Fargo

Despite the reduction in branch numbers and the shift from high street to digital banking the UK branch network still supports 67m transactions every week.

According to Accenture the number of customers going into a branch at least once a month has risen from 45% in 2012 to 52% in 2014[7], with the most pronounced increase occurring amongst the 18 to 24 year old 'digital natives' – 54% of whom said they visit their branch every month. It seems that even our most digitally savvy generation need, what Accenture describe as "face-to-face contact, advice and reassurance as they start their life's financial journey."

The importance of branches also varies by activity - the internet is king for research but when it's time to apply for a mortgage or loan about 50% of customers prefer their branch over other channels[8]:



"When you are negotiating a mortgage, for example, you want the personal interaction"
- Derek French, the Campaign for Community Banking Services

And it's not just the big things; two thirds of customers making deposits still prefer to do so over the counter rather than through a self-serve machine.

It seems that whilst branches may not be a daily necessity they are the banking channel that almost nobody can do without, with just 5% of people claiming never to use them[9].

Channel	Mobile	Telephone	Online	Branch
% who never use this channel	51%	27%	19%	5%

Importantly, customers also use branches for non-transactional activities, such as changing their details or asking about products and services that offer greater opportunities for advice or to interact with the bank.

This clear preference for performing different banking tasks across different channels suggests that while an all-digital bank might be right for some there are also significant opportunities for banks that can operate effectively across every channel.

The challenge is - how should branches adapt to their new role? There are two complementary visions for future branches...claiming never to use them[9].

1. **Branches as self-service hubs**

> "...technology developments will change the way a bank branch is designed. Anything you currently do over a counter will be automated..."
> - John Ennis, VP of UK and Ireland, Diebold

The clear imperatives for multi-channel banks is to reduce the cost of their branch networks and drive the adoption of on-screen services, not just on computers, tablets and mobiles but also inside branches themselves.
This is likely to lead to a new kind of 'express', self-service, facility that's smaller, less costly to fit, faster to break even and dominated by screens.

Self-service branches can occupy smaller spaces, require fewer staff and could reduce costs significantly. NAB and Westpac have already embraced this trend with new branches that are 25% smaller than the previous generation.

> "As early as next year, you could see one of the major high street banks buying a convenience store location and fitting it out with ATMs..."
> - Martin Shires of banking technology firm NCR

Branches that depend on self-service digital technology will need to cooperate closely with the other digital channels, particularly mobile, to maximise their effectiveness.

Biometric authentication could usher in an era of even faster, frictionless self-service including card-free ATMs, pre-approved offers and pre-filled applications.

According to McKinsey technology translates directly into cost reductions but European retail banks are investing too little in digital - just 0.5% of their total spending - and have only digitised 20 to 40% of the customer experience. By better leveraging the digital shift they could realise improvements in EBITDA of more than 40% over 5 years.

At Intelligent Environments, we believe that within two years two of the most frequent reasons to visit a branch – paying in cheques or making cash withdrawals - could be eradicated.

Some cheques will no longer need to be written at all thanks to the proliferation of person-to-person payment services like PayM. Those customers who do still need cheques will be able to pay them in with a simple photograph taken from within their banking app.

Equally, it won't be long before a customer can simply request, via their app, a large cash withdrawal and simply collect it from the nearest ATM.

If the potential for moving transactional banking to digital platforms is realised then banks can focus face-to-face banking on adding value...

2. **Branches as sales and support hubs**

> ...banks don't have to sell or tear down physical branches ... A much better approach is to shift bank thinking away from 'order filling' to customer-value creation."
> - W. Michael Scott, CEO of Alpharetta

With transactional activity increasingly done online or via self-service facilities banks will be able to reduce headcount and focus staff on activities that create value.

JP Morgan Chase expect that the branch of the future will have 40% fewer staff and that half of the remaining staff will be in sales-driven positions[10].

Branches, or at least those that specialise in sales, will increasingly follow other high street retailers in positioning their staff as trusted subject matter experts rather than tellers and cashiers.

Barclays already has 7,000 'Digital Eagles' helping customers to get online. The initiative helps to catalyse the transition to digital whilst reinforcing the value that branches and knowledgeable staff can deliver.

Branch employees are less likely to be deskbound in future too:

> "... when you go to a bank and you have a meeting with someone you end up talking to the back of their monitor. Wouldn't it be nice to talk to someone just holding a tablet?"
> - Shaygan Kheradpir, CEO, Juniper Networks

Barclays have equipped some staff with iPads, helping them to get truly face-to-face with customers whilst improving the time it takes to open a new account from 60 minutes online to just 3 minutes in-branch.

Nationwide have taken the idea of freeing staff from their desks a step further by making virtual mortgage advisors available to remote branches via video conferencing facilities.

Barclays and Nationwide hint at a future where banks can leverage joined-up, multi-channel banking to reduce costs and improve service...

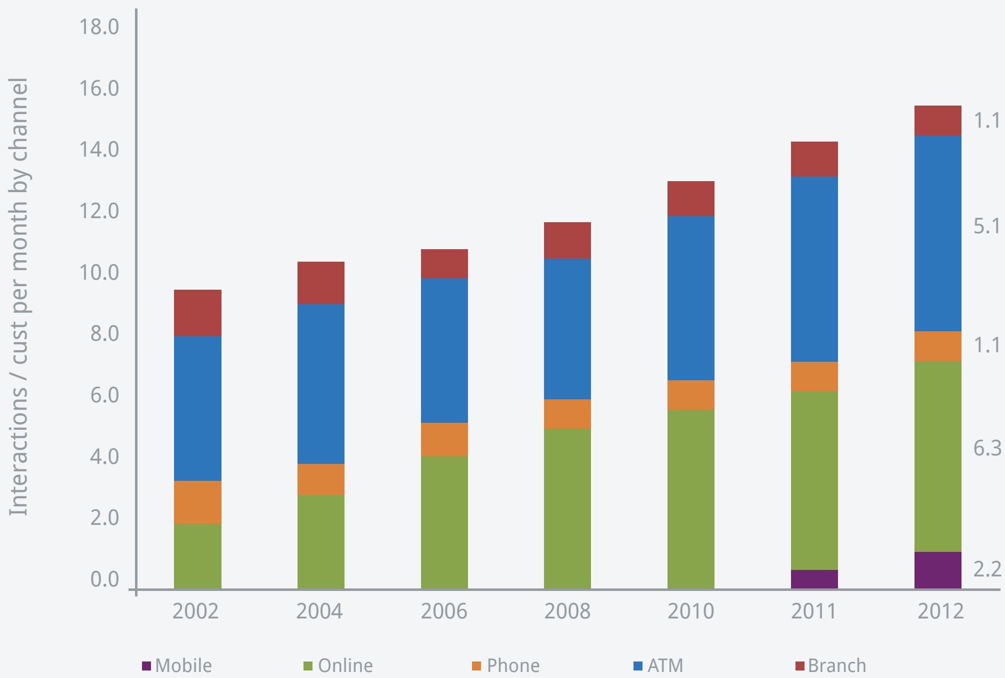
The future is multi-channel banking

"RBS and NatWest will retain one of the largest UK branch networks for a long time yet ... Eight out of 10 customers will be within a three mile radius of a branch."
- Brian Holland, Head of Points of Presence, RBS and NatWest

Although the number of transactions conducted inside bank branches is falling the total number of interactions between banks and customers is increasing at a far higher rate.

This chart shows how the volume of overall transactions at National Australia Bank increased 50% over a decade and continues to do so; Barclays report that its mobile app users now log in a staggering 24 times a month.

Monthly transactions per customer by channel at NAB



For every 100 branch visits JP Morgan Chase now see 92 visits to the ATM, 76 online and 55 on mobile[11]. In the last 5 years their teller transactions declined by 4 percentage points whilst digital log-ins increased by 28.[12]

Some customers will be happy to go without branches and banks that don't offer branches will be able to run leaner operations at much lower costs.

The best all-round customer experience, and perhaps the best life-long banking experience, will likely come from banks that best understand their customers' behaviour and tailor a variety of physical and online channels around it.

In its white paper on the bank branch of the future, Microsoft concludes that banking channels are no longer siloed, but mutually reinforcing[13].

Once users and banks have adjusted to the multi-channel model, different channels will typically support different types of interaction.
The mobile channel exists to support an entirely new form of ‘snacking’ behaviour.

And if mobile banking is snacking then the online channel, where so much of the normal, weekly and monthly activity like managing budgets is migrating, becomes the equivalent of a square meal.

In future the branch is reserved for financial fine dining; special occasions where customers will expect personal service and expert advice for critical decisions.

Without doubt branches will change but rather than playing a diminishing role, a modern, fit for purpose branch network complemented by a comprehensive digital portfolio can become an influential nexus where all banking channels converge.

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About the Author

Simon Cadbury, Head of Strategy & Innovation
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Simon joined Intelligent Environments in November 2013 as Head of Strategy & Innovation. He joined from Lloyds Banking Group (the UK's largest Retail Bank with brands including Lloyds, Bank of Scotland & Halifax) where he was responsible for payment technology and also sat on the Credit Cards leadership team.

He has a deep understanding of contactless (working with Transport for London in the early stages of their project to enable payment with contactless), mobile contactless (Lloyds, as part of its London 2012 sponsorship, worked with Visa and Samsung to deploy handsets capable of making contactless payments), Person to Person payments (including the UK Payments Council's solution to use a customer's mobile number as a proxy for their current account) and reward programmes (such as the card linked "Halifax Cashback extras" product).

Prior to Lloyds he held a range of strategic and product development roles in the TMT sector; including at BT (where he helped develop Europe's first Blackberry product as well as the public Wi-Fi service, BT Openzone), Vodafone (launching 3G in Australia) and BSKYB (part of the Sky HD product team).

About Intelligent Environments

We are an international provider of innovative mobile and online solutions for financial service organisations. Our mission is to enable our clients to always stay close to their customers.

We do this through Interact®, our future proof platform which enables secure financial applications, engagement, transactions and servicing across all digital channels. Today that is predominately focused around the mobile, PCs & tablets. However Interact can and will support other form factors as and when they proliferate (as seen by our work to develop digital banking for the Smartwatch).

We provide a ready alternative to internally developed solutions, enabling our clients with a faster route to market, expertise in managing the complexity of multiple devices and operating systems, as well as a constantly evolving solution.

We are immensely proud of our achievements on multiple levels - in relation to our innovation, being recognised by the industry, having demonstrable product differentiation, the diversity of our client base and the calibre of our partners.

For many years we have been at the heart of a wide range of financial organisations including Generali Wealth Management, Ikano Retail Finance & Loyalty, Lloyds Banking Group and Telefonica (O2).

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