WIN THE RACE OF BRANCH TRANSFORMATION

Five Strategies for Banks to Consider

OVERVIEW

A massive investment swing from digital transformation to retail networks is happening among financial institutions. Bank of America, JPMorgan Chase, and PNC Bank recently made headlines with their billion-dollar investments in branch refresh and transformation programs, which impact thousands of locations across the U.S.

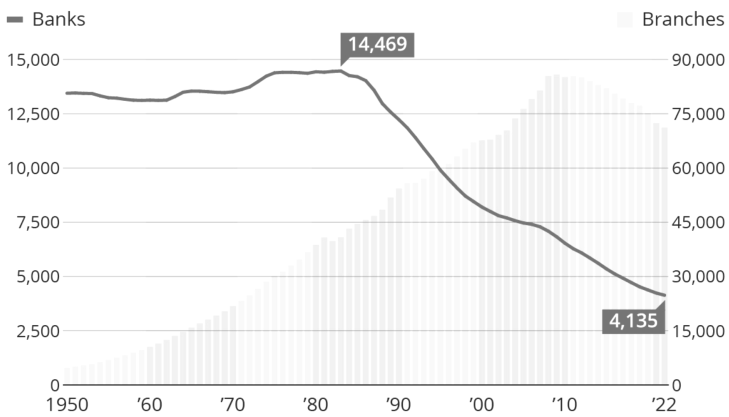
At the same time, many financial institutions are consolidating their networks, following major acquisitions such as Union Bank by U.S. Bank and HSBC Bank Canada by RBC. As mergers and acquisitions accelerate, the number of bank brands is expected to further decrease in future.

According to the FDIC, by the end of 2022, the number of commercial banks was down to 4,135, while these banks operated almost 70,000 branches (see Statista's chart on the right). Interestingly, the number of branches was just about 40,000 in 1983.

These changes are driven by geographic market expansion. It places community and regional banks in the crosshairs of industry giants. In this white paper, we will share strategies on how institutions can survive and thrive without succumbing to competitive threats.

U.S. Banking System: The Great Consolidation

Number of FDIC-insured commercial banks and branches in the United States



Source: FDIC

JPMorgan Chase by 2027

500	New branches
1,700	Branch renovations

PNC Bank by 2028

100	New branches
1,200	Branch renovations

RESEARCH CONTEXT

The importance of branch networks in driving brand loyalty and sales growth has taken center stage. The re-emphasis of this physical channel has also led to the discussion of financial advice as a focus of the branch experience.

Many institutions are debating the value of the investment in branches, and whether to shift away from digital transformation. In this white paper, we will explore what metrics should be leveraged to justify the investment in branch renovations.

It's become increasingly difficult today for a bank to have a competitive advantage in the banking industry. Our study "The State of Banking: Achieving the Ideal Customer Experience" identified that customer service, a wide range of products, and a strong digital banking platform are critical for driving loyalty. However, performance in these aspects have become comparable across banks, and digital transformation is no longer a strong differentiator. The study highlighted that financial advice is emerging as a critical differentiating factor. The ability to deliver quality advice is not easily matched by competitors. It relies on one-to-one relationships that can only be improved through a higher level of engagement and training.

METHODOLOGY

This research consisted of an online survey with 1,600 customers and a separate online survey with 300 financial executives to explore:

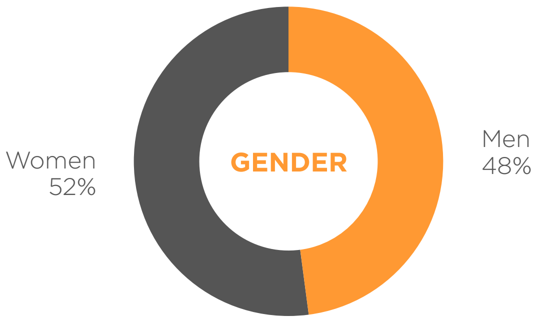
- Customers' channel preferences for different financial products and services
- Branch visit behaviors
- The role of advice in growth and loyalty
- How customers define "credible advice"
- Customers' expectations of branch renovations
- Sales performance of renovated branches
- Branch renovations projection

In addition, we leveraged data from these previous studies:

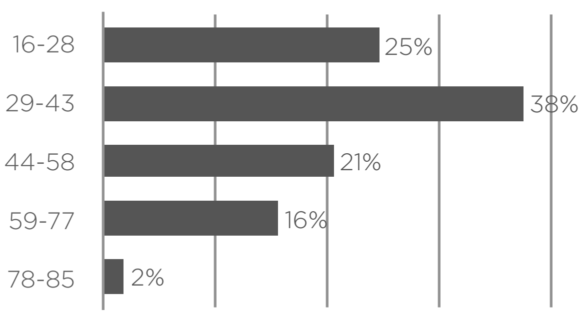
- The State of Banking: Achieving the Ideal Customer Experience
- Overcoming Stealth Attrition in Retail Banking
- How Branch-focused Customer Experiences Can Increase Advice-Driven Services
- What is the Ideal Future of a Seamless Banking Experience?
- Measuring What Matters

RESPONDENT PROFILE

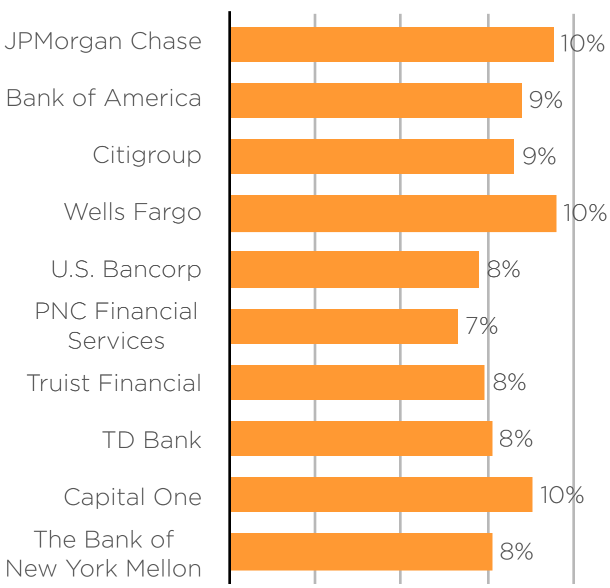
CUSTOMERS



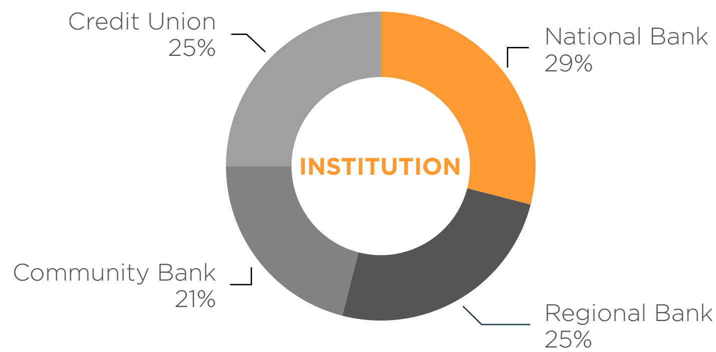
AGE



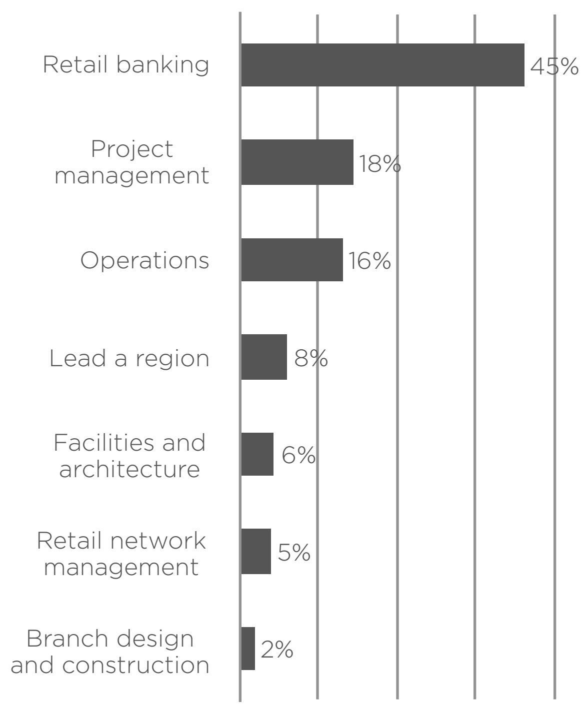
INSTITUTIONS



FINANCIAL EXECUTIVES



ROLE



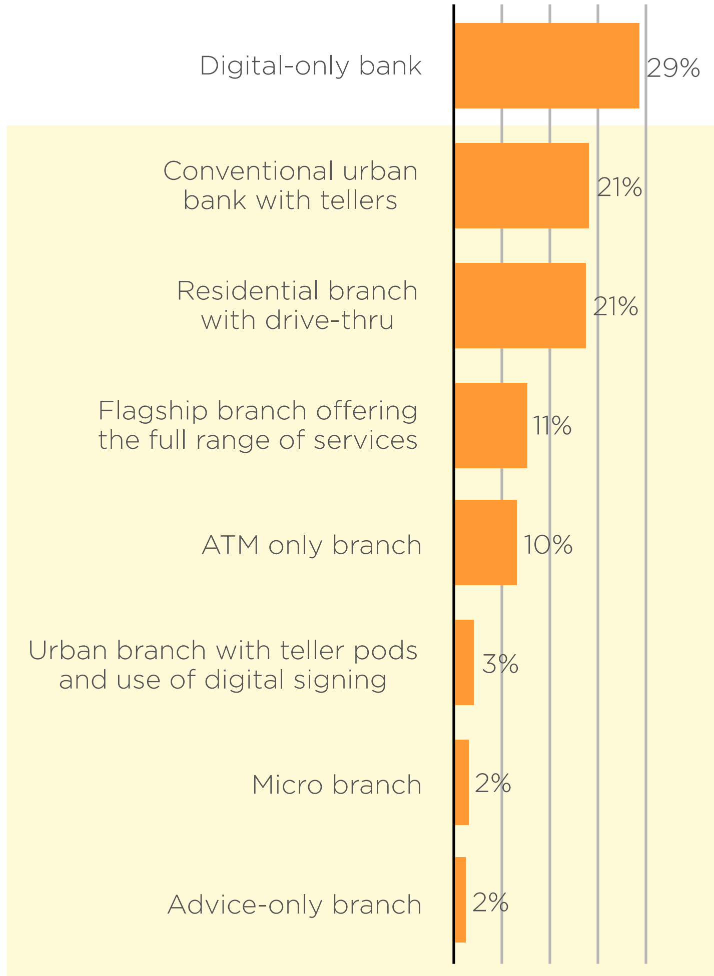
Shifting from Digital to Physical to Drive Loyalty

Digital Transformation

Our studies "Overcoming Stealth Attrition in Retail Banking" in 2017 and "How Branch-focused Customer Experiences Can Increase Advice-Driven Services" in 2023 identified that many institutions that have undergone digital transformation with heavy investments, struggled to create sustainable brand differentiation.

This is not to undermine the importance of facilitating customers who want to conduct transactions 24/7, as mobile has replaced most channels for day-to-day banking. However, with new platforms offering convenient digital banking services such as ebankIT, the competitive advantage gained from digital transformation has decreased significantly.

Moreover, digital-only customers are much less loyal than those using all banking channels. Loyalty is the highest amongst customers who frequent physical locations most often and use fewer banking apps. Yet, despite their preference for mobile as the primary banking channel, most customers visit a physical branch at least once a month, with 32% visiting once a week.



Q: Where do you conduct your primary banking?

THE BRANCH REMAINS THE KEY CHANNEL FOR CUSTOMERS WHO SEEK ADVICE AND GROWTH PRODUCTS

	Branch	Bank website	Mobile app	Call center	ATM	Alternative finance app
Apply for financial products (credit cards, loans, insurance)	28.83%	29.11%	25.89%	5.67%	2.61%	2.06%
Bill payments/transfers	10.06%	24.44%	53.94%	3.06%	3.61%	1.28%
Check my account balance	7.78%	22.94%	60.28%	3.39%	3.89%	0.78%
Buy/sell investments	19.89%	17.67%	31.00%	4.11%	3.17%	5.56%
Resolve an issue	27.33%	15.89%	21.78%	29.61%	3.06%	0.89%
Financial advice	31.89%	15.89%	21.17%	12.22%	2.39%	3.11%
Make a deposit or cash withdrawal	27.89%	9.83%	26.28%	2.44%	31.00%	0.44%

Q: Please indicate which channel you most often use for the following financial needs.

Advice-driven Branch Experience

With banks realizing that digital transformation has become table stakes, they are turning to an advice-driven branch experience to drive growth. This has shifted investments toward retooling retail networks and supporting human resources.

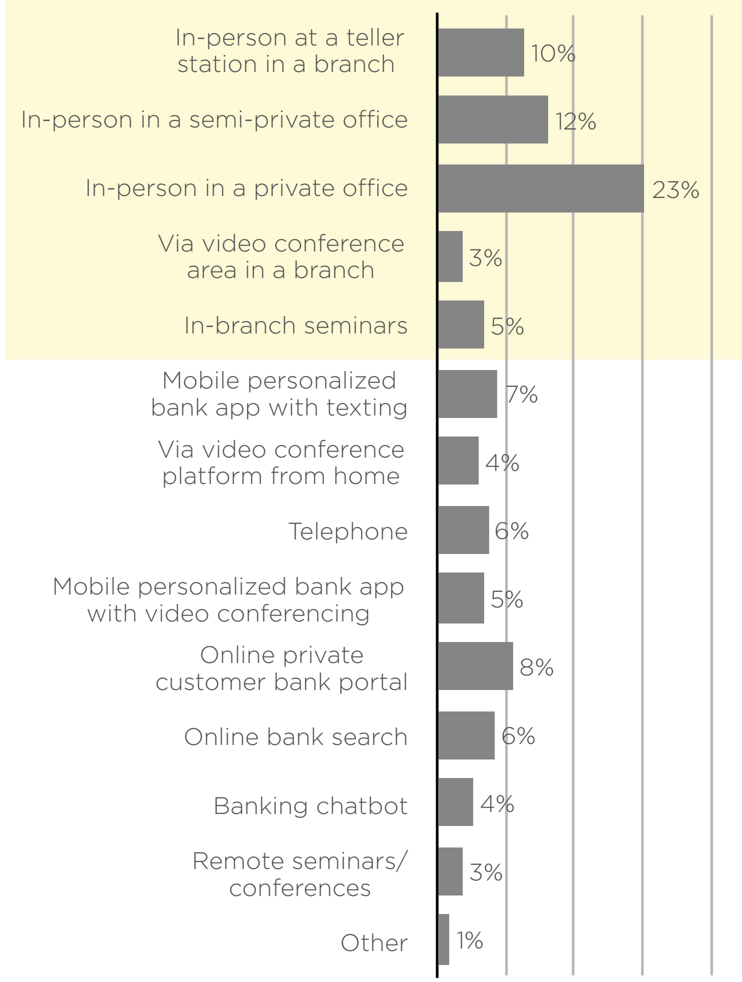
As a test, Bank of America has recently replaced teller lines with customer service representative tablets to help support an advice-driven service model. JPMorgan Chase continues to expand its community-focused branches with a five-year commitment of $30 billion Racial Equity Commitment ("REC").

JPMorgan Chase has embraced the importance of branches. The bank is expanding its branch network in smaller, advice-centric formats to appeal to small businesses, investors and homeowners.

The re-emphasis on bank branches, once predicted to be eliminated due to digital banking, echoes the insights from the survey with over 300 bankers conducted as part of this paper. The data confirmed that branch renovations do increase sales. Institutions investing more in their customers' branch experience witnessed sales growth of 11-25% and higher.

Moreover, our study "What is the Ideal Future of a Seamless Banking Experience?" found that 52% of respondents in the customer survey are considering switching banks in the next year — however, those who visit the branch more often are less likely to say so.

53% of respondents indicated the ideal financial advice experience is in the branch.



Q: Where is the ideal experience for financial institutions to deliver outstanding financial advice?

> ***"People like to visit their money. The nature of the branch has changed, but people still go there."***
>
> ***Jamie Dimon, Chairman and CEO, JPMorgan Chase***

Elevating Branch Experience Remains Critical

Unsurprisingly, financial executives noted the major reason for renovating or opening branches is to attract new customers and remain competitive with increased visibility, on top of employee retention. To justify investments in branch renovation, more than 58% of bankers suggested that improvement in sales performance and employee engagement are the key metrics to track.

However, the shift in investments to retail networks is faced with various challenges, such as budget competition with digital transformation and the rising cost of renovations.

In addition, 19% of bankers expressed that their organizations do not see the value in retail branches. Banks need to strike a balance between rightsizing their branches and minimizing the risk of disrupting customers' access to convenient banking.

Our study has shown more than 35% of customers noted that their local branch had either closed or relocated. When not offered a convenient alternative to branch closure, 31% of customers will switch institutions.

Advice is the New Differentiator for Loyalty and Growth

If not effectively managed or supported by the shift in focus to quality advice, investing in branch networks can hinder growth.

Customers nowadays are financially anxious. The key solution is to let them gain stronger control over their finances. Providing relevant and meaningful advice is a key unmet need that drives loyalty.

However, regardless of the channels, customers seek advice with human support. They are aware of the current fragmented omni-channel experience, with the biggest gap between digital banking and physical branches. To meet the customer needs, filling this gap is critical. Ultimately, to increase loyalty, the customer experience must shift from omni-channel to seamless, with easy access to all banking channels and experts.

Financial institutions that offer personalized, advice-driven services to help customers save money and improve well-being will benefit from an increase in deposits, investments, and loyalty.

Instead of AI chatbots, customers seek advice from staff in a physical branch. Offering these services will drive branch visits. Having access to experts is especially important for those aged 16-34. When it comes to financial advice, customers are looking for straightforward, credible, and customized information.

76%

of customers suggested that branch experience with a robust advice-driven platform would increase their LOYALTY

41%

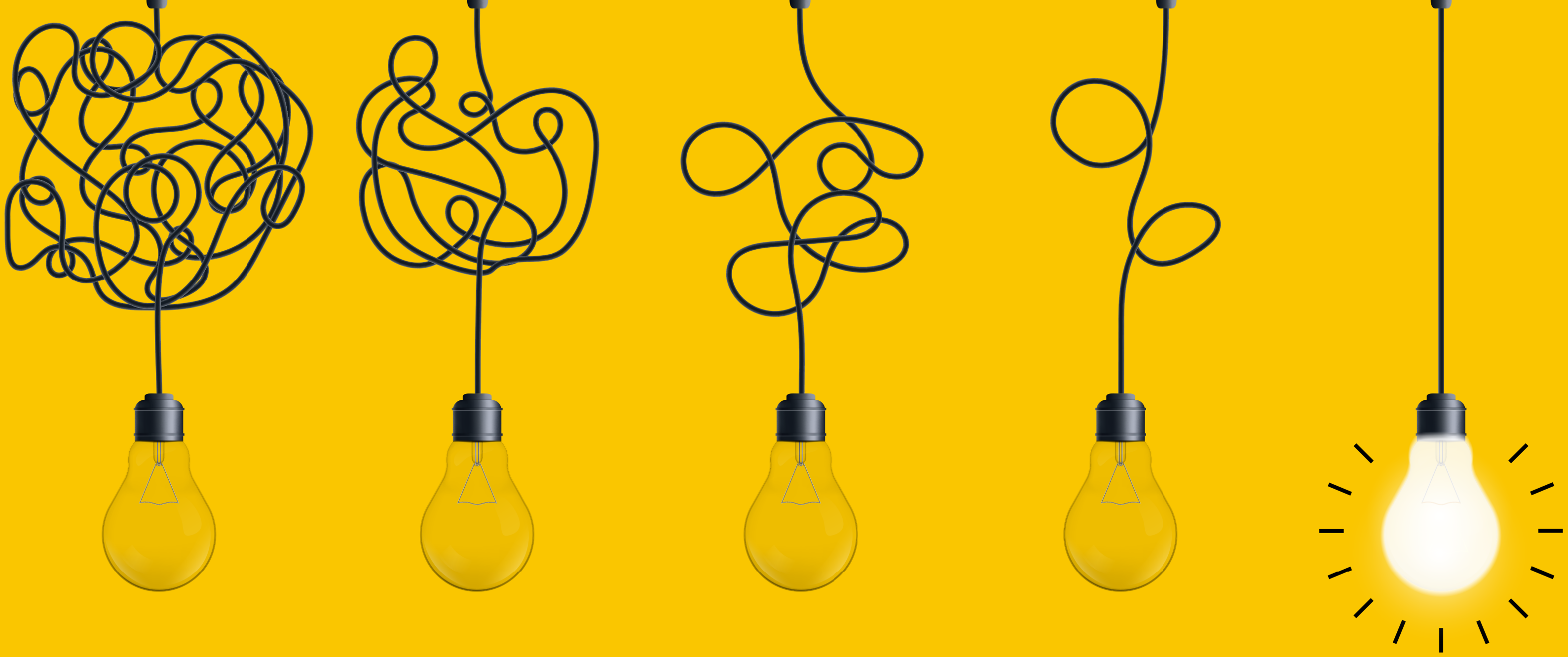
of those aged 29-43 rely on financial institutions for TRUSTED ADVICE

38%

of those aged 29-43 rely on professional advisors for TRUSTED ADVICE

28%

of all age groups ranked INDUSTRY REPUTATION the highest when they determine whether the professional advisor is trustworthy and credible

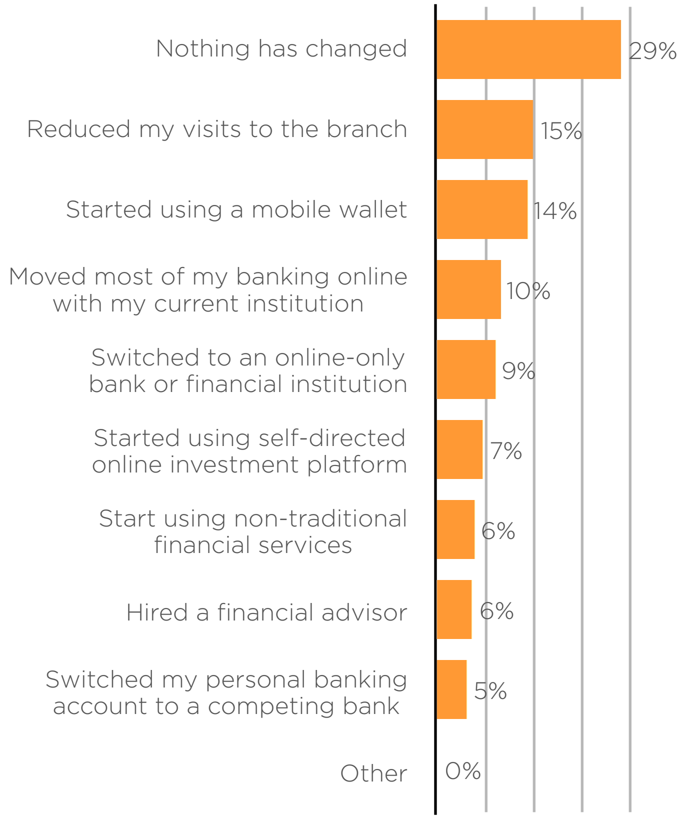


Five Strategies for Banks to Consider

Strategy #1: Identify the Attrition Risk of Your Institution

Our study "Measuring What Matters" found that financial institutions focus on tracking metrics related to sales, net promoter score (NPS), and staff engagement. However, very few metrics track the vulnerability of stealth attrition. Stealth Attrition is the hidden loss that occurs when customers shift to competing institutions to seek high-margin products while continuing to use their current bank for lower-margin, transaction-based services.

An institution's vulnerability is affected by factors such as site location, years since renovation, visibility, community integration, and a paradigm shift from transaction to advice. In addition, the institution should comply with accessibility standards. Around one-fifth of the population are experiencing physical or sensory impairment, and they represent some of the wealthier and more loyal customer segments.



Q: In the past six months, has your banking behavior changed?

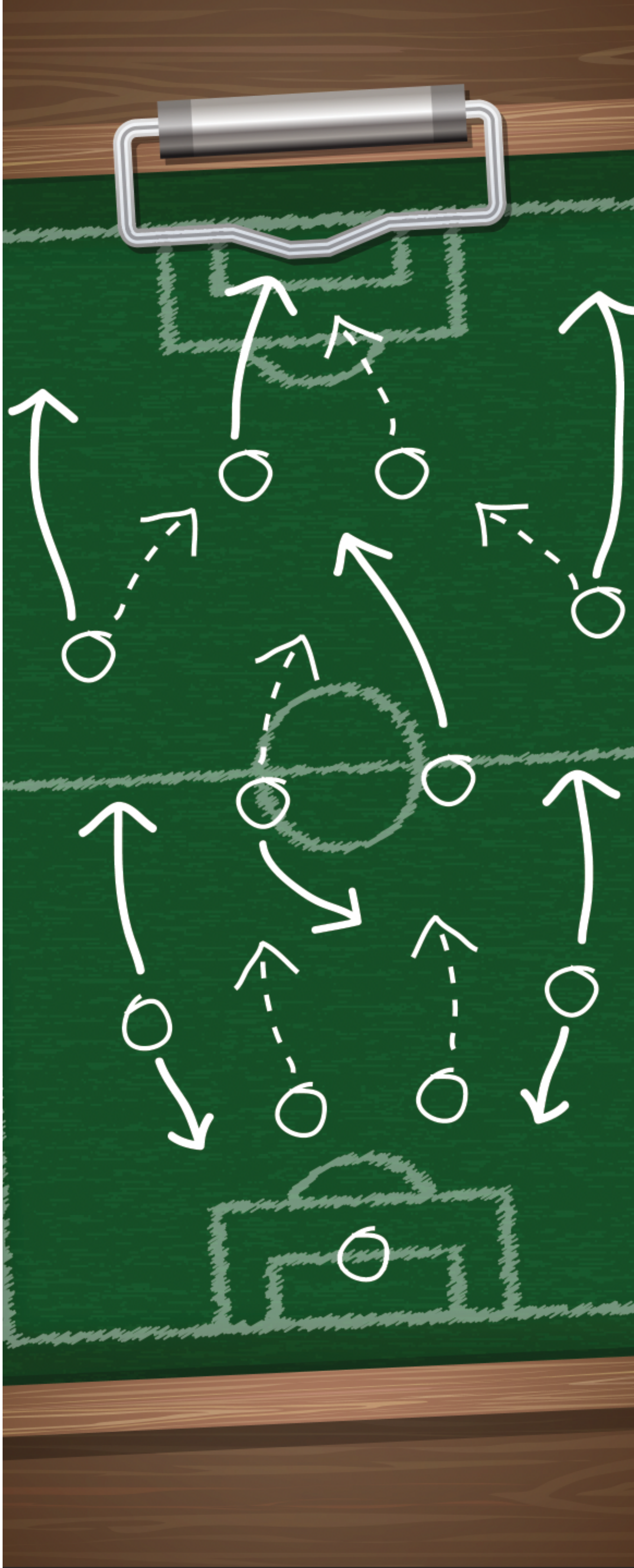
Strategy #2: Review Your Distribution Strategy

Industry giants are adopting a two-pronged approach, taken right out of the military playbooks, in their branch transformation plans. It consists of a defensive strategy and an offensive strategy.

On the one hand, a defensive strategy explores potential vulnerabilities in the core market, and often includes a branch refresh, such as ATM upgrades with a broader distribution in secondary locations. As part of the renovation program, these institutions will also explore the introduction of tiered privacy setups, consultation offices, virtual lobby greeters, and end-to-end customer engagement platforms such as Engageware.

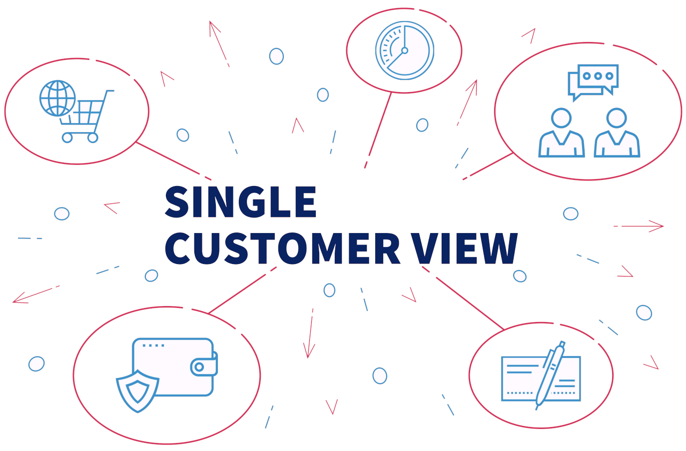
On the other hand, these institutions will develop an offensive strategy to establish new branches in non-core markets, as evidenced by JPMorgan Chase.

Currently, there are over 4,000 commercial banks in the U.S., down from 14,000 four decades ago. It is predicted that the consolidation will accelerate due to the rising operational costs, as well as difficulties in terms of talent acquisition and digital transformation.



Strategy #3: Elevate Omni-Channel to Seamless Banking

Regardless of the investments being made in digital transformation, most banking channels are not seamlessly integrated. A significant gap is found between digital and physical channels, especially when a minimal budget is allocated to branch transformation. Based on how vulnerable your physical and digital channels are, competitors trying to enter your marketplace will focus on building strong relationships with your customers. Closing the omni-channel loop will reduce friction points, enabling a single customer view (SCV). As a result, it will be harder for competitors to gain market share.

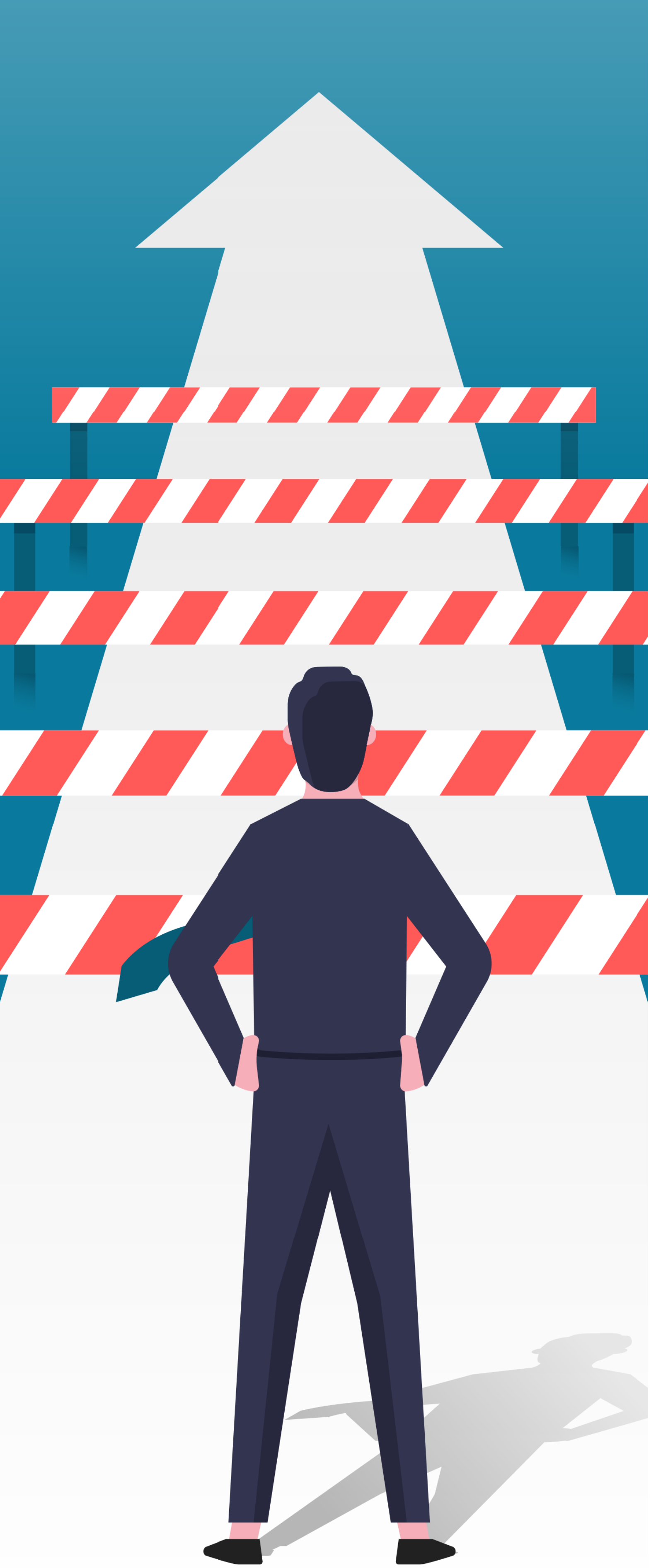


Strategy #4: Accelerate Your In-Branch Transaction Shift to ATMs

In terms of shifting toward financial advice and customer journey transformation, the European market with its second-generation open banking is years ahead of the North American market. A key insight lies in its ability to leverage ATM networks to shift both individual and SME deposits from teller lines to ATMs. This shift was successful due to a finely tuned sales choreography supported by staff training and incentives, which enable a gradual and effortless shift in customer behaviors.

Increased ATM utilization allows more time for customer service representatives to offer customers advice without impacting transactions. The key to success is a redefinition of the branch's role as a vehicle for advice and sales.

Institutions such as Millennial BCP (a Portuguese bank) have not only met these challenges but also driven significant growth and customer retention through the process, demonstrating the feat can be accomplished with a thorough plan.



Strategy #5: Elevate your Advice-Centric Branch Experience

Branches enable banks to offer differentiated advice. A renovated branch may drive sales in the short run; yet, it may not be sustainable. According to our study "What is the Ideal Future of a Seamless Banking Experience?" in 2022, although the investment in branch renovation drives sales growth, the effect gradually diminishes. Only by introducing the concept of branch as a platform for service and advice will the renovation continue to gain momentum to drive sales.

It is important to redesign the branch experience to include tiered privacy, with a shift in focus to advice and consultation areas with more seating. Current branch designs put too much emphasis on teller lines which are often situated in prime areas, whereas consultation offices and meeting rooms are hidden from visitors. As fewer customers visit the branch for transaction purposes, it will be beneficial to shift the focus toward advice pods and offices, as well as reducing the visibility of teller lines.

BRANCH TRANSFORMATION SUMMARY

A CHECKLIST OF THE KEY ASPECTS THAT BANKS SHOULD TAKE INTO ACCOUNT FOR BRANCH RENOVATIONS

ATTRITION RISK

- Site location
- Years since renovation
- Branch visibility
- Community integration
- Accessibility standards

2-PRONGED PLAN

- Exploring vulnerabilities in core markets
- Considering new branches in non-core markets

SEAMLESS BANKING

- Minimizing the gap between physical and digital channels
- Enabling a single customer view (SCV)

ATM UTILIZATION

- Leveraging ATM networks to shift transactions away from teller lines
- Fine-tuning sales choreography along with staff training and incentives

ADVICE CENTRICITY

- Downplaying teller lines
- Offering differentiated and quality financial advice
- Designing consultation areas and meeting rooms with adequate seating

STAY RELEVANT AND COMPETITIVE

The race of branch transformation is not just about the investment amount in new layout designs, but how it enables greater access to advice and tiered privacy. Investing in branch networks without reimagining sales choreography and staff training will only lead to poor results in the long term. Financial institutions challenged by resourceful competitors should put more emphasis on opportunities for sales growth, ensuring that the investment addresses the customers' needs for quality financial advice.

ABOUT

Jean-Pierre Lacroix
Innovator, designer, strategist, futurist, transformer of brands for growth, Jean-Pierre Lacroix is President of Shikatani Lacroix Design (SLD). Jean-Pierre Lacroix is strongly committed to design innovation. In addition to pioneering the successful firm, Jean-Pierre is also Past President of The Association of Registered Graphic Designers of Ontario, Past President of DIAC (Design Industry Advisory Committee), board member of SEGD (Society of Environmental Graphic Designers), as well as former Director of the Packaging Association of Canada.

SLD is a global branding firm specializing in transforming customer experiences for financial institutions and retailers brands. A key tenet of the company's approach is the constant review of trends and market dynamics influencing ideal transformation outcomes.

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