From every high street corner to the tip of your finger

What is next for the UK bank branch?

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Over the last 12 months we have seen a continuing trend across the banking sector, as major banks continue to review and implement branch closure strategies. Whilst these mainly affect customers in the personal banking sector, there are wider implications for businesses, local trading environments and the overall economic health of the areas where branches are closing.

Interestingly however, it was recently revealed in a Clydesdale Bank customer survey, 81% of customers want to have the option of human interaction, regardless of how advanced banking technology becomes. So therein lies the paradox today; many people perhaps don't know how to write a cheque, they embrace digital, but also want to have human interaction if they require it.

So, what is a bank meant to do to deliver services their customers want?

Is the demise of the bank branch inevitable?

Branch closures are very much in vogue with the ‘Big 5’ banks (LBG, RBS, Santander, HSBC and Barclays) all reducing their branch footprint. In total, across the major retail banking and building society brands, the UK ended 2018 with fewer than 7,500 branches and over 1,800 branches have closed – one in five of all outlets – since January 2017.

	January 2017	January 2018	End of 2018
Barclays	1,309	1,208	1,058
Lloyds Banking Group	2,038	1,791	1,700
RBS Group	1,537	1,206	797
Santander	841	798	766
HSBC	748	625	626
TSB	588	559	551
CYBG Group	248	172	159
Virgin Money	81	81	81
Handelsbanken	207	207	208
Cooperative Bank	105	95	68
Metro Bank	45	55	62
Nationwide Building Society	691	680	680
	9,282	**8,138**	**7,456**

Source: Retail Banker International

In January, Santander UK announced a further 140 branches are to close, and this is hot on the heels of 50 branches closing in 2018. In 2017, Barclays’ branch estate reduced by 101 outlets and it announced the closure of a further 150 branches this year.

There is no doubt that cost reduction is one of the banks’ objectives, although all banks that have undertaken, or are undertaking, branch closures cite the growing popularity of banking via smartphones and tablets, which in turn vastly reduces foot-flow in branches. Indeed Ross McEwan, RBS CEO, in a BBC interview, stated, “Our busiest branch in 2014 is the 7:01 from Reading to Paddington - over 167,000 of our customers use our Mobile Banking app between 7am and 8am on their commute to work every day.”

So, should bank branches be a thing of the past, or are our big banks overlooking the opportunity and value they can offer to consumers and the bank’s investors?

Looking back

Since the 1980’s banks have been encouraging, or at times forcing, customers to use more cost effective (for them) distribution channels. Initially through telephone banking and more recently via online and app-based services.

Although customer dissatisfaction with banks peaked after the financial crisis in 2007/8, switching has been unpopular. This is despite switching initiatives and many banks offering substantial ‘bounties’ for consumers that move their primary bank account to them.

The demise of the high street as evidenced by the failure of established retailers (e.g. House of Fraser, LK Bennet, HMV and Oddbins) and store closures by others including Homebase, Debenhams and M&S. Consequently the shape and therefore purpose of our high streets is changing dramatically.

Regulators have made it progressively more difficult for banks to sell more complex products such as investments, life protection and mortgages with the requirement to evidence if and what advice is given; placing the burden of proof on the banks to evidence. Both the Retail Distribution Review (and Mortgage Market Review) have radically reduced the level of complex products distributed via branches and where it still takes place the length of the interview process has almost trebled e.g. mortgages.

Recognising the paradoxes

Paradox 1 - Complexity & advice

There is no doubt that the high street is changing, partly because of consumers transacting more online. Banks are no exception with their customers using branches less and using digital services more. Additionally, there has been increased regulatory scrutiny of banks and requirements imposed associated with providing customers with advice. Many banks have welcomed brokers to help gain market share and ease the regulatory burden on themselves. Consequently, the broker share of the mortgage market is now 80%, according to the IRESS Mortgage Efficiency Survey, and the same source states that branch mortgage sales have fallen by 37%.

Yet not all customers have access to or the ability to use digital banking and most consumers say they still value face-to-face for complex or higher value transactions such as applying for a loan, reporting the death of a family member, buying a home or retirement planning. This face-to-face support is increasingly difficult to procure, and will get more difficult, as banks willingly concede part of the value chain to intermediaries and digital channels.

Helping customers with financial products that materially change their lives is something that builds trust and engenders loyalty. Short termism in the guise of banks off-loading part of their regulatory responsibilities to brokers & IFAs and reducing their distribution of advised products may be something they repent at leisure as customers become less sticky and buy financial products & services from more providers.

Paradox 2 - Funding

Typically, the customers that use branches are older. They tend to be depositors, rather than borrowers, and currently banks make money from lending as money is plentiful and cheap.

Yet it is not so long ago that banks had to vigorously compete to attract deposits and with the Bank of England having ended the Term Funding Scheme at the end of February 2018 (banks borrowed £127bn at very low rates and have four years to pay back their loans) it is likely that customer deposits will be valued more in future. Branches may be a critical component in attracting and retaining deposits.

Balance Sheet strategy is a fundamental for banks yet many still struggle to balance ‘deposits in’ with ’lending out’ and reducing capability on either side of the balance sheet would appear unwise, even if cheap money is currently available. It has long been considered that a brick & mortar presence gives customers the impression of solidity & reliability and also gives the Big

5 banks very public advertising boards. Might customers with bigger deposits be less likely to trust digital banks due to a perceived lack of access to their money, despite the FSCS (Financial Services Compensation Scheme) that compensates £85,000 per person per authorised firm?

Paradox 3 - Differentiation

High Street Banks have sought to copy digital only challenger banks like Revolut, Monzo and Starling.

Their offerings seldom go beyond the hygiene factor and the current big 5 banking apps do not create an experience beyond this. The 'new breed' of challenger banks are nimble & innovative and regularly create new functionality for their customers. Despite their resources and customer base the Big 5 banks are nowhere near as agile as they are hampered by their legacy systems and greater bureaucracy. In closing branches and not providing 'advice' are the big 5 Banks losing a channel to delight?

Nationwide Building Society has pledged to keep open their UK branches till at least May 2021 and committed that this would happen whether, or not, there are rival banks and building societies situated in these towns and cities. They also acknowledged that branches often act as a bellwether for the health of a high street and can be a catalyst for growth or decline.

Paradox 4 - Access to cash

The demise of cash is much vaunted and in December 2018, of 1.6 billion debit & credit card transactions, 691 million were contactless - about 43%. This growth in contactless payments has contributed to less cash in circulation, and especially in our urban areas.

Access to cash is still vital for most communities and the independent (albeit funded by the Link ATM network) review 'Access to Cash' issued in March 2019 concluded that digital payments don't yet work for everyone. Around 8 million adults (17% of the population) would struggle to cope in a cashless society. The report calls on Government and regulators to step in urgently to ensure cash remains viable and provide a "Guarantee to Cash Access" for all, especially to those in remote and rural areas. Interestingly this is not just a UK issue, with Philadelphia in the US banning cashless stores from 1 July 2019 to avoid discrimination of the unbanked and underbanked. Recent studies in the UK calculate that it costs the unbanked an extra £485 per year not to have a bank account. For example, they cannot take advantage of online mobile phone or energy deals without a bank account, and may resort to cash-in-hand "doorstep loans" as an alternative to traditional credit sources through banks or credit card providers.

Paradox 5 - New customer acquisition

Banks cite lack of customer demand for branches.

Big banks are better at retaining their existing customers than attracting new customers. It is worth looking closely at Handelsbanken and Metro Bank, who have both successfully targeted growth by acquiring 'new to them' customers. Metro Bank's ambitious store expansion programme remains on track and the opening of their store in Northampton in November 2018 took the Metro Bank network to 62 stores. Almost in 'stealth mode' Handelsbanken's network has grown from 56 outlets in 2008 to 208 at the end of 2018.

Paradox 6 - Purpose

There is no doubt that branches in their current format are not attractive to many customers as there are more convenient ways to transact apply for many banking products and services.

Even as banks rush to close branches many are simultaneously creating hubs for SME businesses to interact and to incubate new businesses. An example of this is the RBS partnership with Entrepreneurial Spark (that RBS took over in its entirety in June 2018) in terms of which they have 14 'hubs' where entrepreneurs can collaborate with peers and advisers to successfully establish and grow their businesses.

Paradox 7 - Reputational risk

More and more consumers are digitally active and use their phone or other mobile device for as much as 90% of interactions with a bank.

But, what if there is a digital failure affecting the website or app? This happened during TSB's recent platform migration from LBG systems to the platform of their parent, Sabadell. Their impacted customers were unable to talk to a human via TSB's call centres or branches due to demand far exceeding capacity. Does the lack of brick & mortar presence create reputational risk for the bank in times of a digital blackout?

Strategic considerations & actions

Don’t throw away infrastructure until you are sure what distribution of the future should be

In March 2019 Lloyds Bank, NatWest and Barclays announced that they have clubbed together to pilot ‘business banking hubs’ where cash-reliant firms can pay in large volumes of notes and coins. The three have agreed to pilot an initial six hubs, the first of which is in Birmingham. Maybe this is an early indication of the big banks recognising the import of their infrastructure to the communities and customer groups they are committed to. By sharing these hubs, Lloyds Bank, NatWest and Barclays spread the costs however, in doing so they also lose the opportunity to differentiate from each other, at least on this service.

Although the big 5 Banks (LBG, Barclays, HSBC, RBS and Santander) have more than an 80% share of the UK’s current account market this may not be sustainable going forward. By competing digitally with digital only banks and closing branches they are levelling the playing field and may actually be conceding advantage to the new entrants.

Transform segmentation and focus on consumer mindsets

Traditional segmentation by income, assets, age, geography may not be enough and ‘mindsets’ need to be overlaid. For instance:

- Which customers and non-customers would be attracted to branches for ‘financial education’ and could this be a source of acquiring loyal customers for the future?
- Which customers and non-customers would seek to collaborate and learn from ‘peers’ or ‘experts’ in specific locations and could this build affinity with their bank?
- Which customers and non-customers would come to a branch if a particular product, service, insight and advice was available?
- Which customers and non-customers would find a mobile bank or ‘pop up’ useful, for what purpose and when?

Engage with consumers and listen to what they say

Just as successful retailers will transform their brick & mortar retail outlets banks will need to adapt their branches. To do so successfully then banks must take more heed of what consumers, not just their existing customers, want from each location and match this to their target segments and required Return on Investment. Henry Ford famously said, “If I had asked people what they wanted, they would have said faster horses.” The fact is however he never asked them and if he had asked the question skilfully, then the people may have said faster transportation and provided input to the innovation process. Banks now need to take that leap of faith and ask consumers in their target and value adding demographics to work with them on designing the branch of the future.

Be prepared to act on the direction of your customers and see the branch differently

Banks may need to use customer feedback to see the purpose(s) of a branch differently and then be prepared to be different to their competitors. The basis of this will be from customer feedback.

Determine what the purpose(s) of each branch should be

Designing the branch of the future will undoubtedly require banks to gather and evaluate additional data to help them determine which customer groups or segments to target and in which specific locations. It is highly likely that a 'one size fits all approach' to designing branch prototypes will not match with the customer needs and opportunities and banks will need to look at experimenting with different models and approaches and to be prepared to adapt their approach in specific locations along with the changing macro and micro economic conditions and evolving customer needs. Should banks revert to past purpose and recognise their role at the heart of communities, giving them the mandate to then be part of the lives of the people in the community?

Travel agents make an interesting case study as initially the internet saw a closure of many travel agents on our high streets as the service they offered was ripe for digitalisation, as their catalogues easily translated to online content. However there has been a resurgence of travel agents that embrace consumers desire for a unique experience. They have created a specialism based on personalisation and that encourages complexity to co-create special holidays and memories with their customers where the face-to-face and digital channels complement and enhance the customer's purchasing experience. Food for thought for our high street banks?

The future is bright, the future is Phygital

What should future distribution look like and do branches play a part?

We need to differentiate between transactional banking and complex advisory services. While the trend in transactional banking is to pure digital, complex advisory services still require a better blend of physical and digital. New niche player banks focus mainly on transactional banking in the pure digital space although, increasingly, some provide access to more complex services provided by partners via APIs and a 'Marketplace' model. Starling offers the likes of investments, insurance and even P2P investing by this route.

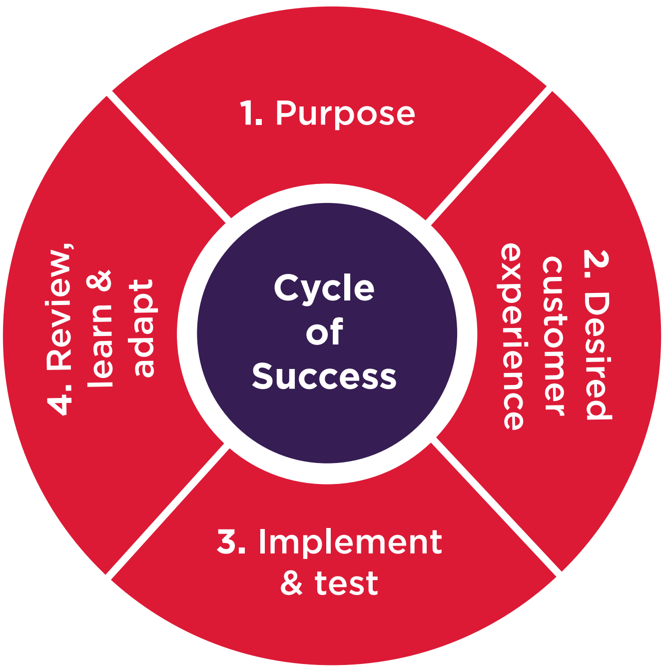
Key questions:

- Access to cash for the unbanked/underbanked and for businesses is key for vibrant communities that attract consumers. Should banks accept that being part of a community carries advantages rather than look at it as purely an overhead cost?
- The larger players may always be at a disadvantage if they seek to be mainly 'digital'. Willingly levelling the playing field may not be the best thing to do for longer term success when there are more tech enabled and agile new entrants without heavy, non-integrated legacy systems. How do you acquire customers if you are competing in the choppy and congested waters?
- Currently banks have conceded much of the mortgage, investment & protection value chains to intermediaries. As a result, they have a blind spot to consumers seeking access to human interaction with a knowledgeable (and qualified) individual. Isn't the branch ideal for advice in relation to more complex products and transactions? In the provision of this advice, banks maintain their ongoing relationship and their customer's trust.

If after answering the questions above, you believe that branches may play a key part within a multi-channel distribution strategy, then the below framework will support your branch strategy development.

Cycle of Success

1. Determine the purpose(s) of each location.
2. Design the desired customer experience. Particularly important when a location has more than one purpose.
3. Implement & test.
4. Review, learn & adapt.



Step 1 - Determine purpose

Transform segmentation and think about different customer mindsets. Why may they value human interaction?

Traditional segmentation by income, assets, age, or geography has its place, but mindsets can vary substantially within, what on the face of it, may look like similar 'segments' based on what individuals love and hate. It is important to weigh up the value equation - what might these customer groups want human interaction with a bank or building society for, and why it may be important for a bank to meet this customer need in order to be sustainable in the future. This is also heavily driven by life-stage – what might they need from an interaction at any given moment in their lives?

Traditionally banks and building societies have been (and will continue to be) sustainable if they:

- Generate revenue – customers deposit and/or borrow more and take new products from them
- Retain their customers (and their holdings)
- Acquire new customers - get new business by recommendation/ word of mouth
- Innovate & adapt and offer new product lines to match the changing needs of their customers/members
- Adequately manage their risk to avoid bad debt, regulatory fines and remediations costs to put right wrongs.

Customer wants	Bank values	Potential purpose
Financial education	A source of acquiring loyal customers for the future - many people keep their account with the institution that they had their first savings account with	Learning Centre / period financial health checks?
To collaborate and learn from 'peers' or 'experts'	Building affinity with their customers Improved customer retention and share of wallet	Community Heart Collaboration within Communities or Groups e.g. town/village, small business owners – connecting bank business customers with bank retail consumers – being the commerce hub Business Lounge concept for travelling business people (think BA lounge for business customers needing a work/ meeting area)

Customer wants	Bank values	Potential purpose
To be recognised and valued	Improved retention and build share of wallet	Personal service centre offering personalised and relevant 'offers' – personalised to customer and locality
Help with complex and high value interactions Support and insight to access financial products that fulfill dreams (new homes and setting children up for success) and protect their families (look after them should circumstances change)	Interest income Fees and commission – Non-Interest Income has tailed off as banks have vacated the investment and protection space Note: The FCA will appreciate strong engagement with them and a strong audit trail to verify and validate any advice provided to a customer	Advice and Complex guidance - especially for younger inexperienced customers (e.g. first bank account) or for first time home buyers. Increasingly required for pensions, equity release and investments
Access to cash (to withdraw and pay in)	To be trusted (engendered through usefulness) A force for good & growth in the community and support local businesses	Actively helping Britain prosper and demonstrating a social community conscience. Transaction hub – unlikely to be that alone as payback less tangible

Conversely, few consumers would claim to want fun or even choose a bank branch as their first option for a cup of coffee.

New style branches need to focus on 'purpose' and then combine this with capability, flexibility & function. These branches of the future need to appeal to as wide an audience as possible to make a branch a destination based on their purpose and function. Linked to this, banks and building societies may wish to consider the frequency that customers will use this location – does it need a daily predictable presence or will these customers embrace a mobile bank, unmanned/video enabled branch or 'pop up' if they can 'set their watch by it' and it can be relied upon to fulfil their needs & wants?

In a recent journal sent to their customers, Monzo appear to recognise purpose as they are seeking to create a movement entitled 'No Barriers to Banking'. They have stated that they – and all banks – can do more for the almost 2 million people who are unbanked in Britain. Furthermore, they have committed to working to break down barriers to financial inclusion with the support of their 'community', as well as charities and organisations doing work in this space.

Step 2 - Design the desired customer experience

It is patently clear that many consumers want to interact digitally for the convenience, access and control that it offers. So, consumers want it and digital is also a lower cost and more scalable channel for banks and building societies to service transactional demand than via traditional contact centres and face to face. If you follow this logic, then branches of the future should therefore be digital first.

Simon Blissett, a Director of VPod Solutions who are a leader in disruptive communication technology, frames the challenge as:

> "A search for pragmatic, affordable customer engagement approaches that combine the best of digital (intuitive design combined with timely, relevant content) with the best of physical (a human centred, empathetic approach with an ability to 'touch the bricks', see the product or meet a trusted advisor in person)."

He goes on to talk about combining physical and digital assets in a seamless way to engage customers (phygital).

Video conferencing has been around for over a decade which means that it is proven. Although, many banks are still struggling to see its full potential due to very siloed decision making. Additionally, it is now enabled by better broadband capabilities and those that have used it in anger (Nationwide and HSBC) have driven new operating models (e.g. Nationwide now have c. 500 branches video enabled and over 250 centrally based advisors selling several product lines).

Enhanced video capability is key to phygital distribution but only when fully integrated into true customer journeys and when it provides a platform for customer engagement rather than just point-to-point video solution. Newer cloud-based technology also makes it cheaper to buy and more agile to implement & adapt to remain relevant.

For example, VPod provide a video centric customer engagement platform that connects advisors with customers at home (e.g. from within a banking app), from their branches via assisted self-service endpoints in the banking hall (Vgreet) or private interview rooms where they can recreate the physical in-room experience, with an advisor many miles away. The beauty is that the customer needs no specific digital skills to take advantage of these new technologies – if they are designed correctly in a customer centric manner then the customer need expend no more effort than they would do if the advisor was physically present. This creates a win/win situation – the customer benefits from greater availability of expert advice in more convenient settings and the bank benefits from increased sales while reducing costs.

Take a simple customer journey. A customer is browsing a bank website looking at mortgages. They are offered a video chat with a service advisor who explains the mortgage types and books the customer in to see a mortgage advisor in their local branch. The customer is sent an email confirming the appointment, directions to the office and a QR code to use when checking in. The customer attends the branch and sees the assisted self-service device. They check in for their appointment using the QR code and the advisor is automatically notified that the customer has arrived without having to queue at the counter to check in. Indeed, if the mortgage advisor is not present for any reason, the video agent on the self-service device can advise the customer of this and direct them to a video enabled interview room when a video agent is ready to conduct the interview (including printing, scanning, screen sharing etc – just like the physically present advisor would do had they been there).

Being able to do all of this on one platform enables truly flexible journeys and reduces the pain for the bank IT Director! Adopting an open API infrastructure allowing banks to combine existing systems with new interfaces to offer flexible, agile solutions specifically adapted for their strategy and their customer needs.

Step 3 - Implement & test

Like most change programmes thorough implementation and test planning is required. This sort of development lends itself to the agile methodology. This enables the bank to test & learn with new designs, trialling minimum viable products with real customers before deploying them throughout the branch network. This also allows the banks to accommodate regional differences in their design to ensure it is relevant for the local populations.

Step 4 - Review, learn & adapt

It is impossible to predict exactly how consumers will respond to new functionality and how their other digital interactions will mould or guide their future expectations. It is vital to monitor how they use the functionality and the actions they take as a result to enable the customer experience to evolve and adapt. Digital data is becoming an incredibly useful asset in understanding the customers' interaction footprint and finding the root causes of delight and despair in customer journeys. This feedback loop should be built into any phygital branch design, enabling the bank to review, learn and adapt to ensure relevance now and into the future.

A continuous cycle of listening to customers and making them key to ongoing design decisions and implementation is highly recommended.

“While the direction of travel for branch networks, not just in the UK but across Europe and beyond, is to have fewer branches and smaller branches with fewer staff, in them, the physical branch network still has a significant role to play in differentiating mainstream banks from new entrants.

New and emerging technologies enable banks to automate, transform and enhance branch functionality to meet the needs of customers – in convenience, trust building and purpose.

However, technology is almost never a ‘silver bullet’ on its own and adopting new tech should be part of a clear strategy that places purpose, customer experience and the voice of the customer at the heart of that strategy.”

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