

A national consumer survey by Novantas shows that customers are broadly moving online for basic banking activities, yet still prefer the branch for high-value transactions.

Consumers in Motion: Stepping Away from the Branch

BY KEVIN TRAVIS AND ETHAN TEAS

As banks continue to dig out from a recession-scarred era, they are facing major questions about their elaborate distribution systems, which extend all the way from physical branches to the mobile phone. Branch networks are perilously overgrown relative to the foreseeable revenue opportunity, for one thing, and there is a lot of uncertainty about how to invest for the future across multiple channels.

Ultimately, customers are at the center of these issues, and banks will want to align critical distribution decisions with emerging consumer trends. As revealed in a recent national survey conducted by Novantas, consumers are powerfully re-shaping retail distribution requirements for retail banks. There will be no return to the climate of five years ago, when all-purpose branches were proliferating nationwide.

From the customer perspective, the survey shows that the branch has already lost its traditional role as the primary destination for basic services such as balance transfers, account information and product research. The business case for providing extensive teller-based transaction services in the branch is weakening by the day.

Meanwhile, online banking has established its own powerful center of gravity, cited by 38% of survey respondents as the dominant medium for banking activities. The importance of this channel is further magnified by its anchoring role in mobile banking, cited by 18% of survey respondents as a preferred banking channel. Call centers and automated teller machines are siphoning away more traditional branch activity as well.

This still leaves the physical branch to play an important role, but it will be much more tightly defined going forward. Across all customer segments, survey respondents said the branch remains the number one destination for high-value banking activities, such as opening new accounts, buying products and obtaining advice. There is a strong marketing aspect as well, with two-thirds of respondents saying they simply would not choose a

bank that did not have a local branch presence.

To fulfill customer requirements for physical presence in an

AS SEEN IN

NOVANTAS REVIEW

efficient manner, banks will need to accelerate the transition to self-service technology. Encouragingly, most survey respondents said they were okay with using self-service terminals at airports, raising the question of how banks can win similar support in a bank branch setting.

Also, it is clear that banks need to revise their developmental priorities. A significant portion of resources that formerly were devoted to branch networks will need to be redirected to electronic venues. Already the new transactional center of gravity in retail banking, online banking is playing a growing role in handling high-value activities as well. Innovation priorities and budgets should reflect that fact.

BRANCH STRENGTHS

In many respects, branches still claim much of the high ground in retail distribution. Strip away the proliferation of electronically-enabled activity centered on information and ordinary account transactions, and the branch still comes out a winner in attracting new customers and anchoring high-value transactions and customer relationships.

Based on survey findings:

- ❖ Sixty-eight percent of consumers wouldn't choose a bank without accessible branches. And 36% of consumers can't imagine a time when they would be comfortable banking without any branches (this sentiment is consistent across all income and demographic segments). The branch

About the Survey

The 2010 Novantas Survey of Consumer Preferences in Retail Banking Distribution included extensive feedback from 2,500 U.S. domestic consumer households, with respondents comprising a statistically valid sample across age, income and geographic dimensions. The survey was fielded and compiled during the latter half of 2010.

orientation goes beyond convenience, moreover, with 41% of respondents saying that banks without branches feel less legitimate.

- ❖ Seventy-six percent of consumers view the branch as the primary destination for opening new accounts, and 65% of consumers look there first when they buy banking products.

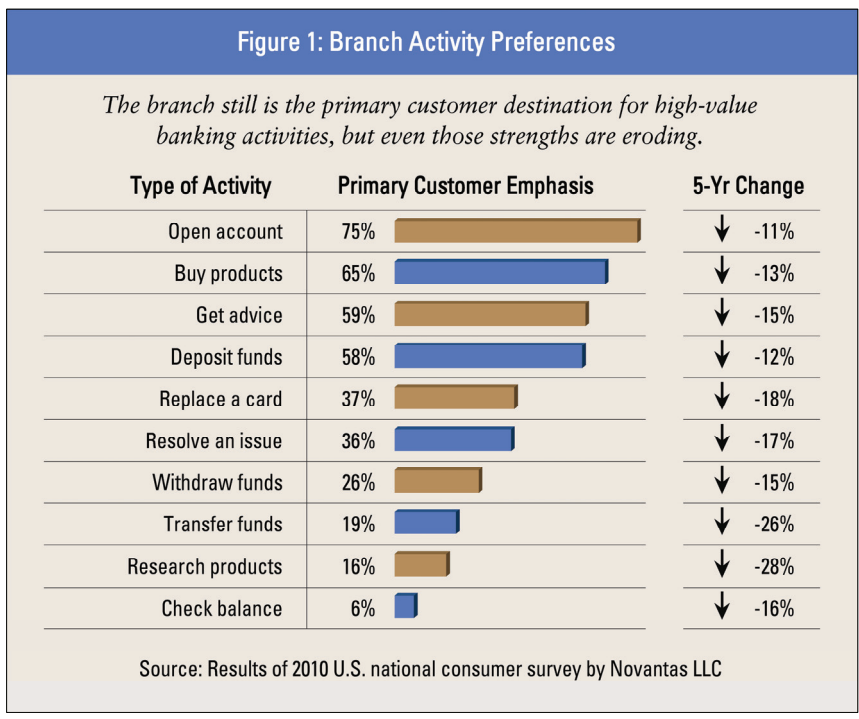
- ❖ Fifty-nine percent of consumers give first consideration to the branch when seeking financial advice, and 36% of consumers still turn first to branches to resolve issues.

- ❖ Even among the heaviest users of alternative channels, there is a strong appetite for branch-delivered products and services.

All this said, even the branch's considerable remaining strengths are in a state of erosion. Compared with five years ago, rankings for all of the highest customer-rated branch attributes are down (Figure 1). Steadily, people are assigning more credibility to alternative banking channels and shifting more substantive activities away from the branch. The role of the branch in providing financial advice, for example, was roughly 25% greater a half-decade ago, with online and phone channels taking up the slack.

What is happening, we believe, is that the branch is being squeezed down to its essential customer-perceived value. When people take time to visit a physical branch, increasingly it is for something important and likely of higher financial value. So there is a core revenue proposition that still deserves considerable attention.

However, there is a severe skew in how this plays out among various branches in the regional network. As more fully discussed in



a companion article, branches that are appropriately situated, configured and staffed for high-value multi-line service actually have a bright future. The relevance of many other branches, however, has slipped from tenuous to untenable. The branch network is dividing into clusters that can profitably serve high-value customer needs, and those in need of dramatic cost reduction.

CUSTOMER MIGRATION

In the realm of everyday banking transactions, it is clear that the center of gravity has now shifted away from the physical branch. From this perspective, retail banking is no longer tightly synonymous with branch banking (Figure 2).

Consumers now roam between multiple distribution channels to fulfill their banking needs, as underscored by our research:

- ❖ Thirty eight percent of retail banking customers exhibit a strong overall orientation to the online banking channel, while 18% of consumers meaningfully include mobile banking in their financial interactions, and these groups will continue to grow.

- ❖ Seventy percent of consumers first go online when researching banking products and services, up from 42% five years ago, and the preference to use the online channel to check deposit balances has jumped to 68% from 40%.

- ❖ Sixty percent of consumers primarily use the online channel when transferring funds, double from five years ago. Twenty-six percent primarily use automated teller machines for depositing funds, up from 19%. There also has been a shift to online deposit transactions, with 15% of consumers now saying they prefer channels such as automated clearinghouse transactions, person-to-person payments, and remote deposit capture.

- ❖ Even for financial advice, a major gateway to consultative sales, consumers increasingly are looking beyond the branch, with 35% of survey respondents saying they first turn online or to the call center.

- ❖ More than a third of consumers now have smartphones (concentrated among people under 30 years of age). In other industries, such ownership points to greater

self-service propensity, for example with flight check-in. Consumers already are making greater use of mobile for basic banking services, such as account information and balance transfers, at the very least, strengthening the tilt away from branch-delivered basics.

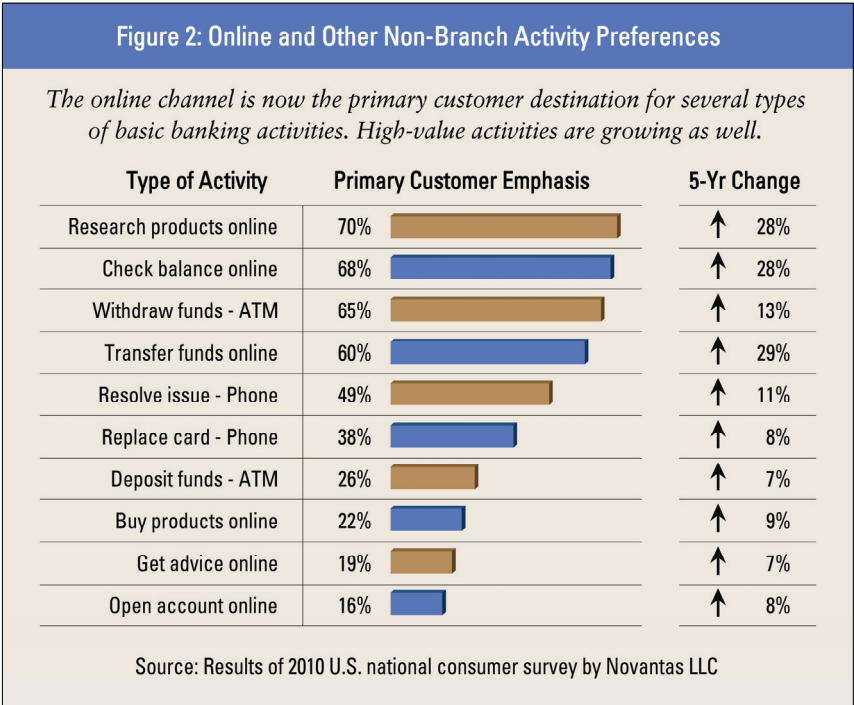
ISSUES AND OPTIONS

In a world where consumers increasingly use the branch for selective, high-value services and heavily rely on electronic alternatives, one question for bank management is how to actually accelerate the process. It is hugely costly to carry traditional all-purpose branches that are already underutilized and destined for further traffic erosion.

But to reconfigure for the future in an appealing way – which is to say without disrupting valuable customer relationships – banks will need a more definitive cultural and technological transition, as seen in airport self-service, such that only a minor safety net of basic manual services will be needed, and customers are okay with that. On the flip side, branches need to get beyond the focus on one-off product sales, and more fully capitalize on the personal interaction that many customers still prefer.

Questions arising from the survey include:

Deposit activity – Given the substantial investments in ATM networks and remote deposit capture, banks should ask why the branch is still heavily used for making deposits. Today, 58% of



consumers still use the branch as the primary channel to make deposits, with significant implications for staffing requirements.

Self service – As evidence of bank customer receptivity to self-service, fully 74% of survey respondents said they use some form of electronic check-in for flights, including online, the self-service kiosk, and the mobile phone. Respondents also reported high satisfaction with the experience.

While ATMs offer increasingly sophisticated supplemental service within the branch, they have not yet achieved the resonance of being the primary destination for basic customer services. What will it take to cement the customer orientation to banking self-service, permitting breakthrough reductions in manual transaction-processing?

Floating expertise – For many branches within the network, there's a strong case to be made for full, multi-line service going forward. This has an implication for required staff expertise, however, and in many cases it simply will not be practical to provide high-value service on demand, in every product area, all day every day.

Already in small business banking, there is a growing use of the roving specialist, who rotates among a handful of branches in a defined local service area. Can banks expand this arrangement to other product lines? While less than 20% of survey respondents said they would actually prefer to make appointments, more than 50% said they would be receptive if they could be assured of quality service.

Account consolidation – As the branch focus continues to tighten around high-value service, a critical success factor for banks will be winning a much fuller “share-of-wallet” with individuals, households and small businesses. Today, for example, the relationship depth gauge remains stuck at about 20% nationally, meaning that the bank typically loses 80% of the customer sales opportunity to competitors.

The Novantas survey freshly confirmed that many consumers are receptive to consolidating their accounts with one institution. Roughly half of respondents agreed that “I would feel comfortable consolidating all my finances with one financial

institution,” with a similar level of affirmation that “I prefer to have most of my cash and investments with one financial institution so I can monitor easily.” What will it take to bring these sentiments to fruition in the branch setting?

Personal service – There is a tendency to equate personal service with personal familiarity, but survey participants shed fresh light on this topic. Perhaps counter-intuitively, only about a third of respondents perceive that they get better service when they know people at the bank; most others said it is helpful but not essential.

This brings home that point that the attitude and expertise of the staff win the day in perhaps most cases. Banks should work at defining and nurturing responsiveness along these dimensions, not to the exclusion of personal customer familiarity, but also without blind overreliance on this aspect of customer rapport.

Nurturing the virtual relationship – Beyond the headline of exploding transaction activity, the online and mobile channels pose some very real challenges for banks, in terms of capturing high-value service opportunities outside of the branch setting. Inevitably, there will be rising competition to provide higher-order financial services through these channels, yet the near-term business proposition can be elusive.

Particularly with mobile banking, for example, it is important not to confuse transaction volume with revenue opportunity. For one thing, the absolute number of mobile users remains low. Only 6% of consumers view mobile as the primary channel for checking balances; for example, and only 3% view mobile as their primary banking channel. Moreover, our survey shows that more complex operations, such as opening an account, are less appealing in the mobile channel.

MANAGEMENT IMPLICATIONS

While the branch still has a vital role to play in retail banking, the future is all about multi-channel distribution. This reality should be fully reflected in strategy and management. Major cross-channel issues and opportunities will be missed by those banks that continue to organize in a way that separates branches, online, call center and mobile.

“While the branch still has a vital role to play in retail banking, the future is all about multi-channel distribution. This reality should be fully reflected in strategy and management.”

“To guide multi-channel strategy, banks will need to stay focused on customer attitudes and behaviors, particularly variations among major customer groups.”

To guide multi-channel strategy, banks will need to stay focused on customer attitudes and behaviors, particularly variations among major customer groups. In a world where all customers are “multi-channel” to some extent, banks face the dual challenge of both fulfilling and shaping emerging customer preferences. This highlights the powerful role that marketing and branding will play, given that customer psychology will influence

choices to an equal or even greater extent than the particular details of a distribution framework and the features and functionality it offers.

In any case, traditional branch-centric distribution strategy no longer can stand. The question is not simply whether the bank needs more or fewer branches, but whether the bank is deploying scarce investment dollars in the right distribution channels to maximize revenue and sales yield from both current and prospective customers.

Typically in retail banking today, the physical branch network constitutes 60% of the overhead. That ratio seems unsustainable and perhaps even upside down, given the changed comparative value that customers assign to the channel.

Kevin Travis is a Director in the New York office and Ethan Teas is a Principal in the Chicago office of Novantas LLC, a management consultancy.

NOVANTAS

Novantas LLC

485 Lexington Avenue
New York, NY 10017
Phone: 212-953-4444
Fax: 212-972-4602
www.novantas.com

Novantas LLC

311 South Wacker Drive
Chicago, IL 60606
Phone: 312-924-4444
Fax: 312-924-4440
www.novantas.com