CRISIS WILL FORCE *PERMANENT* CHANGES IN BRANCH NETWORKS

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The health crisis that is sweeping the country is creating tectonic changes in the role of bank branches. Many banks are striving simply to serve customers and keep basic services operating. Most are closing branches or limiting service to drive-through locations, while also racing to increase the availability of digital, phone and other remote capabilities.

The current measures that limit in-person customer contact may seem extreme. But when the fog lifts, banks may realize that this is the preferred way to do business, accelerating the transformation that has been inching forward for years.

The current situation also will have a significant impact on branch economics, forcing banks to make difficult decisions about cost reductions that will now be a far more material change in banking services than originally anticipated.

LONG-TERM CHANNEL SHIFT

There is little doubt that banks will grapple with declining sales, softening credit quality and ongoing competition from rivals. As a result, banks are expected to refocus investments toward capabilities and infrastructure that support remote and digital sales, service and management.

It is already clear that banks can reach customers with fewer physical locations. Novantas research, based on geo-mobile analytics, has found that banks can now achieve visibility to 50% of consumers with only about 2% of branches within a market. Even before the current crisis, 80% of branch transactions were driven by 20% of the customers. Post crisis, many of those transactions will never return to branches. High-volume branch transactors will become remote transactors.

Meanwhile, the branch network's competitive advantage for sales has been eliminated overnight for some period of time, if not forever. Even though sales were already shifting away from branches, they will now be even more digital and remote. That also means barriers to entry for digital players are lower since more customers will be willing to explore digital and remote services. Digital-only challengers will continue the attack on revenue and customer — even if they ultimately may not survive the market volatility.

The short-term crisis could quickly turn into a long-term one unless banks focus on changes to the network, aligning the needs of the post-crisis customer with the costs to run the distribution system in a brutally honest, realistic way. Banks may be hesitant to make permanent branch-closure announcements during the crisis, but they can still start planning for the next three to six months.

PACE OF CHANGE QUICKENS

While the concept of this massive shift may be overwhelming, banks can break them down into three buckets: facilities, process and people. And with significant losses likely to pile up in 2020 as result of the downturn, it may be financially expedient to take charges against earnings for branch closures now, rather than drip them out over future years.

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When it comes to location, the coming changes will require management to think about visibility and sales, not service and transactions. In this new world, the highest-value locations will be those with the greatest marketing and convenience value, not necessarily the largest or highest volume.

Most smaller and unprofitable branches have already been closed; those that remain are most likely CRA-related and may have to stay open. The rest of the network needs to be evaluated on customer-level impacts such as marketing value, the ability to drive digital sales, creating perceived convenience and securing low-cost deposits.

Branches that remain open now should be those that will be kept in the long-term. Before closing branches for crisis-related reasons, it may be helpful to assess the branch's value after the crisis abates. Will traffic return or will the bulk of its customers be likely to migrate to digital and remote capabilities or other branches nearby?

The crisis is likely to take a big toll on retailers and shopping centers, many of which already have been struggling. Will their fortunes have an impact on the viability of your locations? These outside forces should be included in the assessment of the network's future position, especially since many branches now have five-year leases.

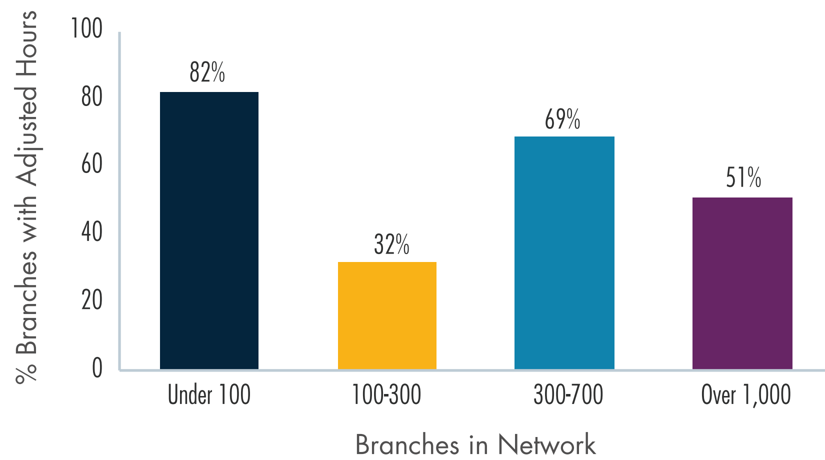
There is no doubt that the crisis has reinforced the need for remote, flexible staffing. Distributed calling, circuit staffing and other dynamic models can help banks weather the crisis and prepare for the post-crisis world.

Those changes will have a direct bearing on the process of serving customers, whether consumer or commercial. Customers need help more than ever, no matter which branches are open. This the time for bankers to proactively reach out to customers, offer support and guide them to open locations if they must absolutely go to a branch. For those that have limited hours, appointment-setting can help keep customers and employees a safe distance apart.

Given the unprecedented situation resulting from Covid-19 and FOMC rate reductions, Novantas is surveying banks about their branch openings and closings, as well as other workforce and operational challenges. So far, we have received responses from 25 banks representing 10,500 U.S. branch locations, including Novantas SalesScape clients and other institutions. These charts include data received as of March 24, 2020.

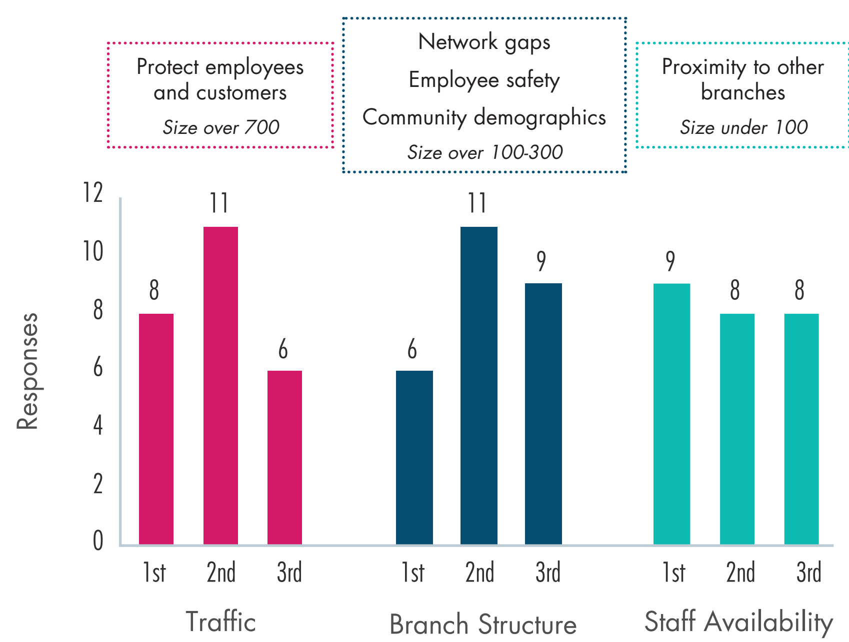
Novantas will continue to update this data and share the results so that banks can respond to the challenges facing the industry at this difficult time.

HOW MANY BRANCHES HAVE ADJUSTED HOURS?



MOST IMPORTANT FACTORS YOU CONSIDERED IN CLOSING/KEEPING OPEN DECISIONS?

Ranking of Responses



Source: Novantas SalesScape Comparative Analytics

At the same time, consider this retrenchment as an opportunity to accelerate traditional branch activities to a digital format. For example, banks shouldn't force customers into a branch for wire transfers.

There is no doubt that the COVID-19 crisis will have long-term implications for the role of bank branches. Bank managements are already managing the health impact on employees and customers. The business impact also will be critically important.

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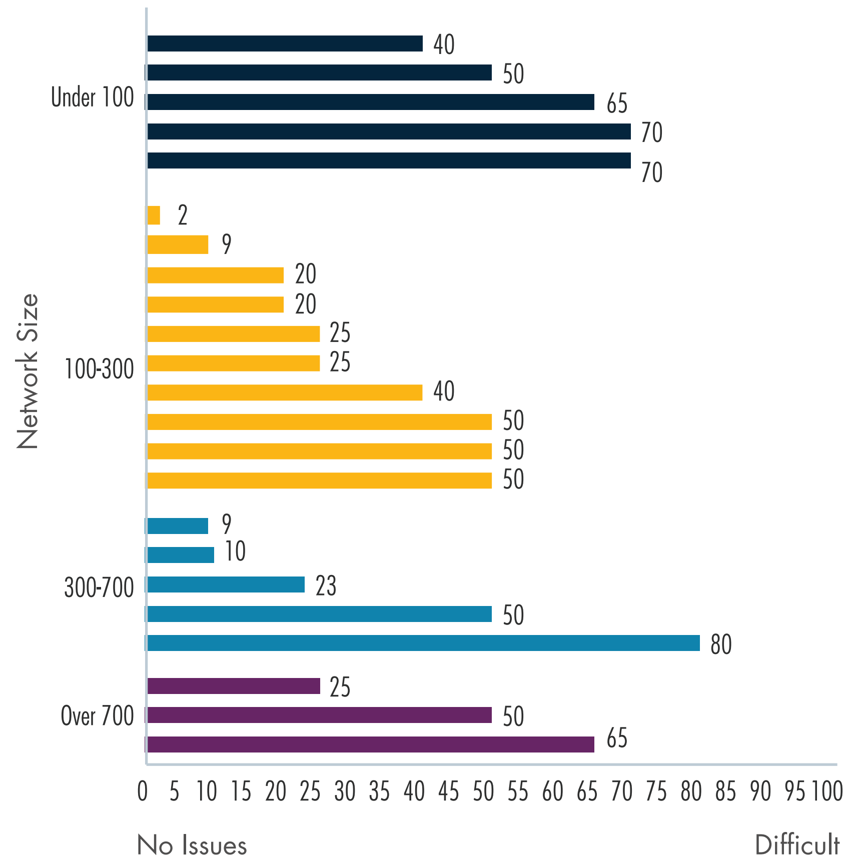
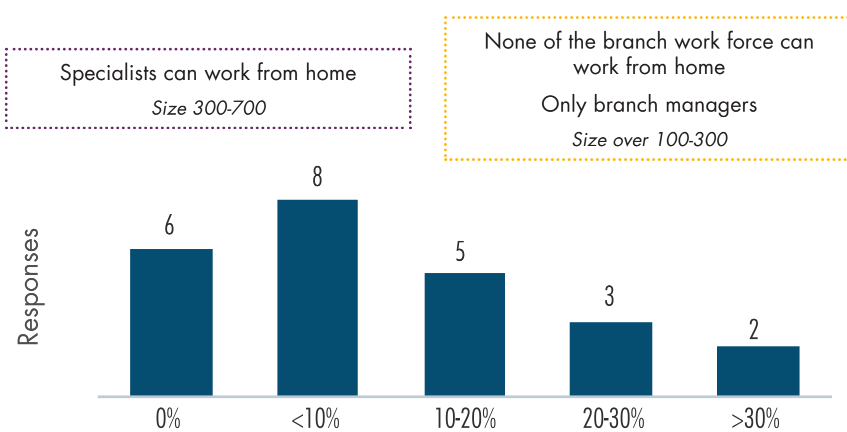
HOW DIFFICULT HAS IT BEEN TO STAFF BRANCHES?

On a scale of 1 — 100, smaller networks voiced a larger challenge with staffing.



WHAT PROPORTION OF YOUR BRANCH STAFF IS EQUIPPED TO WORK FROM HOME?

Most indicated that most branch staff, other than branch managers, had little ability to work from home.



Source: Novantas SalesScape Comparative Analytics

ABOUT NOVANTAS

Novantas is a data-driven solutions company specializing in the banking industry. We provide a blend of data, platforms and methodologies that empower banks to become more efficient and precise as they move with their customers into a digital world. Our experienced team understands banking industry evolution, advances global thinking to meet these challenges and brings the expertise and tools needed for our clients to excel.