BANK SYSTEMS & TECHNOLOGY

Branch Banking in the New Era of Virtual Customers

Banks must innovate in the customer experience at the same rate at which customers are adopting technology.

By Brian Campbell, Merkle | May 29, 2014

We have to acknowledge that 2013 was the year of innovation in retail banking. We witnessed huge growth that exceeded industry expectations from the online-only banks. In a recent study, online-only stood out as the only category of banks to gain share in the past decade among customers establishing (or moving) their primary banking relationship. While new relationships captured by big banks remained flat, online-only banks increased share from 3.5 percent to 8 percent. Deposits at Ally Bank increased 23 percent to $43.2 billion last year, while Discover reached $27.9B (up 5 percent).

The continued customer adoption of new technology has, without exception, increased the demand for mobile and online banking services – leading to the emergence of a new segment of virtual customers. However, the value of human interaction still exists, especially when resolving servicing issues. The personal attention that consumers value when they walk into a branch is continuing to drive the debate around how much to invest in virtual banking services versus traditional brick-and-mortar locations.

Is your bank ready to address the debate? What is the risk of not having a branch deleveraging or innovation strategy? As technology and the enablement of virtual banking improved over the past few years, the drive to visit the branch has diminished – consumers rely on digital channels as their primary access point with the bank for day-to-day core banking activities (payments, applying for products, transactional activity). Banks in the US closed 1,487 branches in 2013 (1.5 percent of total). Traditional brick-and-mortar branches with less than $10MM in deposits lose (on average) $200K per year. There was not a single US state that added branches in 2013.

Deleveraging branches takes time – an estimated 3-4 years to plan and execute. In the meantime, consumer behavior is rapidly evolving, creating more and more virtual customers through enabled technology and application demands. Being connected today is not only seen as a basic “right,” but also has become an expectation – a simple foundation for our day-to-day lives. Can you imagine the world without online banking access, apps, mobile phones, and social media? The answer is NO – and consumers are expecting and demanding better integration across technology, media, and channels in order to manage banking products and services on their time, and at their convenience.

Since traditional brick-and-mortar locations have lost many of the day-to-day core banking activities to technology, the branch banking model is left with advisory services: private banking, investment management, and issue resolution. The new value is not having a brick-and-mortar location. The new value is having a keen understanding of how bank products and services can best meet the everyday needs of consumers and delivering these products and services effectively, based on customers’ channel and interaction preference.

The high cost of maintaining traditional brick-and-mortar locations that provide full-service banking is becoming harder to justify. With the trend of cash and check transactions being replaced by electronic payments in the next 5-10 years, the current ATM and branch infrastructure that supports day-to-day banking activities only becomes untenable form a cost–burden perspective. If branches have a reduced need to deal with cash, then a large part of the reason for their existence disappears.

As a result, we are starting to witness a rapid explosion of a somewhat "hybrid" model: technology-enabled branch centers. The movement is a win-win for the bank and customer. The bank can cut high overhead costs while still serving customers, and focus on those banking activities that require personal interaction and generate strong revenues, like Private Banking and Investment Management. The customer who is time-sensitive can still conduct transactional banking digitally 24/7, and have locations available if they require personal attention with complicated matters.

If you aren't introducing innovation into the customer experience at the same rate at which customers are adopting technology, you are at a considerable disadvantage and risk losing your customers to more agile and technology-enabled competitors who have embraced the benefits of innovation.

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