

31 - R.I.P. Branches - Changing To Fit Customers

by [Steve Brown](#)

It was recently said that walking into a bank lobby these days can feel like walking into a funeral parlor. Wow, that is harsh, but step back for a moment and one can see why. Consider that the decor in branches is often imposing. We find columns, marble, somber colors and people speaking in hushed tones. Whether a grand library or funeral parlor, the comparisons are there so bankers have to live with it unfortunately.

It is interesting to note grand branch styles came about after the Great Depression. That makes sense when you consider banks back then were seeking out the trust of customers, so the look was designed to communicate seriousness and stability. The lobby said out loud - this is a place that is a safe to leave your money. Over our careers we have been in some amazing branches, but along with every other part of our industry in transition, it may be time to rethink this image and bankers are doing just that.

To many, branches are the front lines in the seismic shift taking place in the industry. One bank even reported that it had been monitoring its branch traffic for the past 6Ys and had seen it drop an average of 10% to 13% every single year. For this bank, 20% of its deposits now come from channels outside the lobby.

Over that same period of time, this bank has taken steps to slowly transform and has managed to make both its profits and loans grow. The modern world of banking requires banks excel in all channels, not just their branch locations. This means that the person in the back room running interactive chat or attending to the video teller machine is just as important as the customer service representative in the branch lobby (perhaps even more).

Quality offerings can come through many channels and digital delivery channels are now a necessity. Citibank found some 10% of its commercial customers no longer went through the internet banking site because they were comfortable only accessing the bank through mobile channels. In addition, Citibank found many of these commercial customers exclusively used apps on tablets, because many company personnel policies still do not allow personal smartphones (but tablets are not on the list of banned items). As a result, Citibank enhanced the commercial applications on its tablet app and saw an increase in business.

For all banks large and small, customers still come into branches and studies show they still make decisions on where they bank based on their experiences in physical locations. Given changing customer preferences, however, branches can probably be smaller, have fewer tellers, have more self service kiosks for easy transactions and have qualified empowered staff to take care of complex issues. Bankers know problem resolution is always an important part of customer satisfaction, but so is the ability of staff to proactively advise customers on multifaceted product solutions to meet their needs.

Branches are changing and bankers are going through it all with eyes wide open. Consider one bank that encourages its branches to stage local events and another that offers meeting spaces for small

business customers to meet with their customers. The magic elixir everyone is seeking right now is how best to morph the branch so it becomes a regular part of people's lives and they want to continue to visit.

People just don't separate their lives along the lines of retail/shopping, business/social or consumer/business owner. They mostly just live and expect their service providers (including banks) to interact with them in the manner they choose at any given time. Some even estimate these changes mean banks could lose 32% of their revenue to new non-bank entities in the next few years. If banks work to make the business model more customer-centric you have set the path with the best chance to preserve customer business.

Continue to communicate an image of trust, competence and seriousness as you do, but be sure to ditch the weird candles, spooky music and creepy guy with the shovel that leaves people thinking of something else. Instead, focus your efforts on success and relevance. Look across all of your customer communication channels and ask how you fit into your customers' lives to continue to improve.

BANK NEWS

Rates Hikes

The Chief Economist at JPMorgan opines FOMC members don't see any reason to rush to raise Fed funds rates so it probably won't occur until the second half of 2015. This sentiment was reinforced by Chicago Federal Reserve Bank President Charles Evans, who said in a recent interview that he doesn't expect the funds rate will "start to increase before the middle of 2015."

M&A

Simmons First National Bank (\$3.2B, AR) will acquire Delta Trust & Bank (\$431mm, AR) for about \$66mm.

M&A Lawsuit

Community Mutual Savings Bank (\$263mm, NY) has filed a lawsuit against Customers Bank (\$4.2B, PA) for terminating a previously announced merger. Community Mutual is seeking a \$1mm termination fee and reimbursement of legal fees from Customers.

Branch Sale

United Midwest Savings Bank (\$180mm, OH) will sell a branch to Heritage Bank, Inc. (\$495mm, KY) for a 1.75% deposit premium.

Branch Sale

Fairfield National Bank (\$440mm, IL) will sell a branch to The Peoples State Bank of Newton (\$350mm, IL) that has \$12mm in deposits and \$2.7mm in loans. Financial terms were not disclosed.

Biz Strength

The Wall Street Journal reports U.S. corporate profits reached a new all-time record of 11.1% of GDP in Q4.

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