The Changing World Of Bank Branches

by Steve Brown

We don't spend a lot of time watching traditional network television anymore, but when we do occasionally turn on the news or check the weather, the proportion of advertisements there are for pharmaceuticals certainly is striking. There are ads for drugs for high cholesterol and arthritis pain relief, but very few drug ads aimed at young parents or the health needs of the middle years. The vast majority of pharma advertising focuses on remedies for older Americans.

One reason is because Medicare-eligible Americans are pretty much the only ones left watching traditional network TV. Nielsen studies show that the people who watch the most traditional television are either between the ages of 2 and 11, or over 65. The over-65s watch almost twice as much TV as those between the ages of 18 and 34. Younger viewers make more use of time-shifted viewing and are likely to skip over advertisements altogether. Networks aim to allocate their advertising budgets as efficiently as possible, and it is clear that the pharma companies are betting that the most likely demographic to be watching has a need for pattern baldness and other ailments.

As television viewing habits have changed over the years, so too have the demographics in bank branch traffic. Banks everywhere are trying to figure out how to efficiently manage their available resources in this regard, so this is our focus today.

To start, we have all heard the conventional wisdom that younger, more tech savvy customers are the primary users of digital channels like mobile banking and internet access. We also find broad adoption of digital banking from older and especially rural customers who use mobile and internet banking (as it is far more convenient than driving 20 miles to the bank).

As an example, ponder the customer who runs a small hotel in a mountainous area without cell phone service. The hotel does have satellite internet though, so the hotel has wireless internet for guests to use. It also allows the proprietor of the hotel to use mobile deposit and internet bill pay, which is important because it is a 30 minute drive to the nearest bank. As the example shows, mobile and online banking activities are not exclusively the realm of young urban customers. Over the years, the movement to digital banking channels has been large and has become far more universal than the common knowledge might dictate.

This change in customer banking behavior has fundamentally changed the requirements for physical branch locations and driven banks to seek out cost reductions as they retool business model delivery systems. As a result, there has been a big reduction in branches as banks and thrifts closed 1,955 branches nationwide in 2011, another 2,518 in 2012 and a record 2,563 in 2013 nationwide, according to SNL Financial.

This change can be especially impactful in markets such as rural areas. There, closing a branch can have a big impact on a community by severely limiting the availability of banking. In the alternative to pure closure, some banks are tinkering with ideas such as rotating or limiting staff and boosting self service options.

Another alternative to consider is perhaps reducing hours that the branch is open. If one were to randomly ask customers whether they like longer branch hours, the likely response is, of course it's great to go later in the day, on Saturday etc. But going back to demographics, we expect that the primary population in your branches is Medicare-eligible, and if that is the case, many of them are probably retired or may be soon. Late banking hours and Saturdays just aren't necessary for them, so follow the demographics as they also change as you modify your business model along the way.

Of course, demographics will differ by market, by bank and by branch within banks, but it is critical to take a serious look at how many people use extended hours and the lifestyle of who comes into your branch. Managing with this in mind could help your bank make smart choices, save money and capture new customers - albeit perhaps from non-branch sources.

BANK NEWS

Small Biz Customers

Community banks seeking to capture new business customers may want to design a program around assisting owners with their marketing programs if a recent survey is any indication. Consider a survey by Constant Contact that finds small businesses spend an average of 20 hours per week marketing their business and 82% said they market across multiple platforms (mostly internet, email and social).

Tough Conditions

o Tough Conditions: The Financial Times projects the U.S. mortgage industry will likely undergo a period of consolidation as profits continue to decline. It also said these factors and others led banks and mortgage lenders to actually lose 9bps on average for every home mortgage produced in Q1.

Fed Update

JPMorgan points out the major themes Fed policymakers are focused on right now are tapering (expected to wind down by year end), rate hikes (working on timing, but mid 2015 most likely and it will likely be very gradual), rate hike method (moving away from Fed funds so probably going to use repo markets and excess balance accounts to do this), rate hike level (comments point to a normalized Fed Funds rate of about 3.0% vs. 4.0% prior to the crisis, so probably 300bps maximum) and assets held (probably not going to sell securities they own and instead just let them slowly pay down over time to avoid disrupting markets).