Branch Closures – The Influencers & The Future

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Summary: In 2020, 2,563 branches were lost. Branch closures seem to have accelerated with the pandemic. But, does that mean the branch is doomed? We look for the answers to this question through continuing digital engagement, bank mergers, and needed cost reductions.

Interestingly, some trees such as pines, poplars, willows, and maples, shed their branches annually in a "self-pruning" process. While that may work for these trees, shedding bank branches doesn't always work as well for bank employees, customers, or communities.

S&P Global reported that over the past 12 months, there has been a net loss of 2,563 branches — 3,585 branches shuttered while 1,022 were opened. Although the pandemic has definitely had a hand in speeding some of these closures along, how will the post-pandemic world affect branch closures? Bankers and experts alike have been weighing in on this issue. We look further into this question and provide some possible answers.

Digital engagement continues

All financial institutions (FIs) have seen a huge uptick in digital transactions through the pandemic, as many bank customers began to engage through digital channels. According to one source, online banking transactions rose 20% on average from March to August along compared to a pre-COVID average from November 2019 to February 2020. Even some of those customers uncertain about using technology to do banking transactions started using it out of necessity. This trend is expected to continue to a certain degree and FIs realize this. According to Bloomberg, some FIs are spending more than 10% of their annual revenue on technology. At this rate, it is not odd that bank management needs to strategically look at their branch footprint to balance out this expanding focus on technology for further digital engagement.

M&A plays a role

While the pandemic pushed bank customers towards ATMs and digital banking, previously planned mergers also played a role in the number of branch closures. While the number of M&A deals was down for 2020, some of the deals were big, such as $120B asset-based Huntington Bancshares Inc. of OH and $48B asset-based TCF Financial in December 2020. Huntington Bancshares has since closed 29 branches and it has stated that it is planning to close another 198 branches. With these closures, it is expected that there will be $490MM in cost savings.

As M&A is likely to ramp up this year, more closures are expected. Yet, hopefully not quite as many as has been the case in the past. The needs of rural and low-income neighborhoods are at the highest risk with a greater number of closures. According to the National Community Reinvestment Coalition, since 2017, every US state saw a net decrease in the number of branches, with 25% of those closures happening in low-to-moderate-income communities with high minority populations.

Cost reductions are needed

Still, with the continuing effects of the pandemic, all FIs are reexamining their branch activities with the idea of broader cost savings given customer behaviors. Many FIs had to absorb additional costs in 2020 as they started reopening, such as PPE, employee testing, childcare costs, and more, not to mention higher technology costs. Wells Fargo recently announced that as part of a major $8B cost-cutting plan, it will close 329 branches and expects to close 250 more by year's end.

The branch will survive

Despite all of the above indicators, some institutions are opening new branches or repurposing existing ones. The pandemic hastened customer behavior changes and some FIs are finding success with targeted services or focusing the branch on building relationship profitability. Ultimately, customers will decide what the future holds for the branch.

In the meantime, good real estate can be difficult to replace. When the total cost of breaking the lease doesn't make sense, this leaves you with the opportunity to explore ways to increase the value of the branch for your customers and to your FI.

This thought is reinforced by a recent study by Oxygen, a fintech banking platform, that discovered even with the limitations from COVID, 69% of those surveyed had visited a bank branch in the past 12 months. Industry experts expect branch traffic to stay below pre-pandemic levels, yet it seems unlikely that the branch is going the way of the dinosaur.

STRESS TESTING: TOP-DOWN OR BOTTOM-UP