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Reinventing Bank Branches of the Future

ISG Research™

Table of Contents

Reinventing Bank Branches of the Future: Embracing Opportunity amid Adversity

Banking is feeling the effects of the digital revolution, with smartphones and laptops replacing face-to-face conversations and allowing customers to access products and services with just a couple of taps. Of course, digital and online banking had been steadily on the rise in recent years, but the pandemic forced large-scale uptake, and it seems unlikely that many customers will ever go back to purely in-person banking. New mobile banking registrations increased by 200% in April 2020, accompanied by a 50% drop in branch bank traffic in the same month compared to a year ago.[1]

The rapid shift to web-based interactions has led many banks to conclude that traditional physical branches are losing their effectiveness. In 2020 and 2021, many institutions announced branch closures, including KeyBank, PNC Bank, U.S. Bank and Wells Fargo. For example, U.S. Bank has closed 475 branches since 2020 and HSBC plans to shut down 82 branches in Britain by the end of 2021 after a drop in footfall across its retail network and a surge in digital banking.

Customers are finding it easier to adapt to digital transactions to fulfill most of their financial service's needs. Half of consumers are using digital products more than they did before the COVID-19 crisis began, and 87% of them plan to continue to do so even after the pandemic recedes, further eroding branch transactional activity.[2]

Nonetheless, the demise of bank branches is greatly exaggerated. Customers are overwhelming satisfied with digital banking for some services, but many still want an in-person experience, at least for complex or "financial lifestyle" services. A long-term role of branches will be to provide advice on complex financial products like mortgages, insurance and investing. In fact, a recent Celent report states that 77% of customers want a face-to-face conversation for a substantive discussion about their finances.[3]

The number of total branches will certainly fall across the banking ecosystem. However, ISG expects the large majority to remain open, transforming themselves into experience-led centers with frontline staff empowered with new-age digital technologies. For example, there will likely be fewer tellers, more advisors and a greater reliance on digital tools and technologies, including live interactions with virtual tellers via ATMs, contactless kiosks, AI-based robots and virtual/augmented reality experiences.

In addition, it is imperative for personnel operating in an advisory role to have access to centralized and updated data repositories as well as advanced analytics tools to ensure that they can provide a personalized and satisfying experience to every customer.

Technology does not ensure branch success and the ability to implement appropriate strategies for improving the quality of the in-person experience delivered inside a branch will be pivotal to customer acquisition and retention. In this paper, ISG focuses on ways in which banks can repurpose their real estate and how bank branches are expected to transform in the digital world.

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New Workspace Preferences Lead Banks to Reimagine Real Estate Spaces and Practices

From office towers to data centers to bank branches, banking is the second largest industry in terms of office space leasing, accounting for more than 15% of total office leasing activity.[4] Large banks typically sign office leases for a decade or longer, giving them limited options for reducing their footprint beyond trying to sublease floors to other tenants (not easy to do when most businesses are looking to downsize).

With up to 70% of bank staff still working remotely and more clients using digital channels, banks are reassessing the need to retain costly real estate in thriving urban hubs.[5] The rationale behind their divestment of office space has two main components. First, despite the undoubted brand benefit of having a prime location in a prestigious city, it is highly expensive and a drag on earnings, something now in sharp focus given the financial impact of COVID-19, especially for retail and commercial banks. Second is the acknowledgment that having gotten a taste for greater flexibility (both in terms of location and hours), many people want to give up the commute to work remotely either part time or full time.

With many bank employees working remotely banks are reassessing the need to retain costly real estate in thriving urban hubs.

As hybrid, remote models become commonplace, many global banks are either switching to or testing different variations based primarily on roles performed by employees.

To attract and retain talent, leaders are looking for ways to use real estate assets to create more meaningful employee experiences, strengthen engagement and promote well-being. In turn, the hope is that morale and productivity will improve, benefiting all parties. Thus, banks are developing innovative solutions to make the office facility more conducive to collaboration, recreation and good mental health when employees do come in. As an example, Nationwide in the U.K. plans to invest in office redesign by installing more collaboration spaces, with fewer traditional meeting rooms and adding well-being measures such as quiet areas. Dutch bank ABN Amro announced that it was selling its head office and redesigning another facility based around employee needs to facilitate an increased proportion of employees working at home.

And it is not just the big banks that are acting swiftly. Challenger financial services firm Revolut plans to convert 70% of its office real estate space into areas for staff collaboration while making flexible working permanent for most employees.

Another strategy is that some banks will use branches as an alternative to the traditional headquarters model. That is, they will retain a central "hub" but let staff base themselves in satellite "spoke" offices scattered across various locations. Metro Bank has already drawn up plans to add new facilities for flexible working in branches to enable middle and back-office employees to work effectively alongside their local branch colleagues. In the longer term, this strategy could also help Metro cut operating costs, reduce its carbon footprint and make it easier for staff to commute to a closer location. Similarly, Santander UK recently announced the closure of four offices in Bootle, Newcastle, London Portman House and Manchester Deansgate, as well as the relocation of its headquarters from London to smaller premises in Milton Keynes.

While most financial institutions contemplate closing locations, some institutions will be forced to hold these assets on their books (perhaps even as vacant) until a sale can be made or a lease expires. To counter this financial headache, many banks are looking to condense spaces in areas where they have more than one office, rightly seeing it as an opportunity to cut lease costs. HSBC, which has a strong presence in Asia as well as in Europe, has announced a reduction of 40% in office space, with support functions and head-office activities being targeted for space consolidation. The bank will retain its Canary Wharf-based headquarters, but end leases for other locations in London when they expire.

Envisioning the Next Generation of Bank Branches

While the pressure to shift to digital interactions, reduce operating costs and meet rising customer expectations will continue, the best response may not be to eliminate most branches, but rather to shift to a range of branch types or "formats" designed to satisfy varying customer needs.

As part of our ongoing research into banking customer trends, ISG has developed a framework to define these evolving branch types based on customer engagement and use of digital solutions. In our view, five principal formats will emerge, tailored to address present and future needs across different local micro-markets.

1

Champion Branch

A signature presentation of the brand's physical experience that acts as a showroom for all the bank's products and services.

2

Satellite Branch

Typically, a smaller branch that caters to existing customers, with products and services based on local market needs. Supported by a champion branch for complex products.

3

Café Branch

Provides amenities and convenience in addition to banking services. Such branches can sometimes partner with third-party providers such as supermarkets, airport lounges, even coffee houses, and they can operate as a hub for events and wider community engagement.

4

Micro Branch

Temporary box-type branch or digital booths (or pop-up branch) with limited floor space and secured entry, typically serving fewer customers at a time.

5

Humanoid Branch

Fully automated, human-free bank branch operated based on intelligent automation technologies and aided by secured gates with access through facial recognition.

High Medium Low

		Champion Branch	Satellite Branch	Cafe Branch	Micro Branch	Humanoid Branch
Key Responsibility Areas	Branding	High	Medium	High	Medium	Low
	Engage, Retain & Win Customers	Medium	High	Low	Low	Low
	Educate Customers	Medium	High	Medium	Low	Low
	Enhance Customer Experience	High	High	High	High	High
Range of Technology Solution	Self-service Terminals	High	High	Medium	High	High
	Tech-enabled Rooms	High	Medium	Low	Low	High
	Smart Tablets	High	High	Medium	Low	Low
	Robot Greeter	Medium	Low	Medium	Low	High
Range of Staff	Tellers	Medium	Low	Low	Low	Low
	Bankers/Relationship Managers	High	Medium	Medium	Medium	Low
	Remote Advisors	High	Medium	Low	Low	Medium
Customer Engagement	Extent of Digital Usage	Medium	Medium	Low	High	High

Figure 1: Grid representing five distinct formats devised to function as new-age experience centers

By applying the right combination of formats within the network, bank branches can deliver radically improved and inspiring experiences to target customers across various locations. This, in turn, should deliver a higher revenue per customer at a time when top-line income has been badly hit by almost-zero interest rates and significant reductions in consumer spending. The bottom-line impact from this shift will also be significant considering that physical branches account for a large part of bank's operating expenses — again, very welcome news given the unprecedented spike in provisions for future losses caused by the pandemic.

Future workplace strategy is not limited to bank branches. Banks also need to reassess their approach for underutilized spaces in their expensive headquarters, which are mainly located in the highest rent areas of central business districts. The recent (and, in some cases, ongoing) worldwide experiment of remote working may mean that the demand for office space could be permanently lower for many banks. In fact, we are seeing a long list of banks announce their strategies for hybrid working, almost none of which involve all employees returning to the office on a full-time basis, with the exception of some U.S. investment banks. The following section explores ways in which banks can restructure their prime, expensive, and soon to be underused corporate headquarters.

Imperatives for Banks: Choose the Right Branch Strategy to Meet Customer Needs

Although digital banking has become increasingly common and convenient, more than half the customers in a recent survey (52%) expect no change in the number of branch visits after the pandemic subsides.[6] Moreover, new customers are more likely to start banking with banks that have a recognizable physical branch presence. And if a financial institution closed its branch, 38% of urban customers would move to another banking institution with a local branch “just in case.”[7]

Therefore, banks will need to be more focused in delivering exceptional, engaging and consistent customer experiences driven by technology and personal interactions. Here are some examples of how banks can leverage technology and new design thinking to drive a more relevant, more satisfying (and more profitable) branch experience for their customers.

Although digital banking has become increasingly common and convenient, 52% of customers expect no change in the number of branch visits after the pandemic subsides.[6]

Enhancing in-branch engagements with the right self-service tools

To a large degree, digital experience is now being equated with customer experience in the branch, and this can be driven by allowing customers (indeed nudging them) to use self-service options.

The increasing prevalence of self-service banking is greatly helped by the fact that customers have become familiar and relatively comfortable with the use of such technology in other aspects of their everyday lives, such as self-service.

checkout in supermarkets and check-in at airports. Banks are already looking to deploy similar options, beyond traditional ATMs that have access, cash and transaction limitations, making it easier and more effective for both tellers and customers to use.

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To this end, banks have developed multifunctional ATMs also known as Interactive Teller Machines (ITMs) that act as a "branch in a box," extend operational hours around the clock and make the drive-through experience safer for customers and employees. ITMs offer similar convenience to an ATM but allow customers to complete most of the business they would normally conduct at the branch. Transacting through an ITM costs a bank less than 20% of what it spends on a standard interaction between a traditional teller and a bank customer.[8] Citizens Bank became the first bank in Mississippi to launch an ITM service with video chat technology that helped the bank to assist more customers during busy times, thereby reducing wait times and providing faster service.

Interactive digitals walls can be used to achieve more effective communication. Chatbots and virtual assistants can give customers instant access to information about a bank's latest product offerings and policies as well as details about their own financial situation. BMO Harris Bank tested the smart branch (the "humanoid branch" in Figure 1 above), where there are no human employees at all. In this case, a customer is guided by chatbots based on smart technology. As a fallback (for example, in case of unpredictable questions), chatbots can use videoconference tools to contact a human advisor, who will be equipped with all the relevant information about the interaction to date.

Tellers are adopting more financial concierge like roles with deep knowledge for differentiated customer experience and using tools such as "Branch in a tablet." Such options are complemented by interactive dashboards and CRM solutions allowing bankers to meet customer needs quickly and efficiently. Berkshire Bank's concierge model provides priority services to every customer that walks into a branch regardless of income, savings or wealth. Similarly, Alliance Bank's tablet-based branch banking reduced customer onboarding time by 70%, leading to 14% growth in retail business[9] — proof, if it were needed, that better customer experiences lead to higher revenues. Customers can come in, provide their relevant information, have their photo taken and leave with a brand-new account with a debit card, plus web-based and mobile banking access over the smart tablet without paper forms. This is an important point. Self-service tools are not there to necessarily replace teller positions. Rather, they can elevate the tellers' importance and allow them to focus on customer engagement rather than transaction management.

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Boost the bank's operational efficiency with intelligence

In addition to leveraging new technology, banks also need to prioritize modernizing their aging infrastructure, application stacks, databases and platforms to be more agile and lower the cost of operations. This has become even more of a priority as the effects of the pandemic bite; in 2020, 40% of banks spending on digital transformation was in operations. By undergoing transformation initiatives to achieve operational efficiency, banks expect a 22% cost benefit and 21% revenue impact within three years.[10]

For these strategies to really work, however, it is imperative for enterprises to invest in an organization-wide data strategy and embrace a data-driven culture. This is the glue that will hold together all the other initiatives and transformational activities.

Imperatives for Banks: Choose the Right Branch Strategy to Meet Customer Needs

To optimize customer experience and reduce customer journey friction, banks are looking to create central repositories for all policies, procedures and other customer-facing information. They are developing self-service employee portals and updating them in real time to enable employees to have immediate access to information through a single view of the customer. This approach is intended to stop the most frustrating examples of poor service, where a customer is asked for the same information multiple times during an interaction. For example, U.S. Bank created a unified database of customer information to give employees a complete view of their customers' interactions with the bank. In addition, customers can access financial services across all channels, including mobile devices, personal computers, ATMs and more than 3,000 branches in 25 states.

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Big data solutions allow banks to collect and share branch (as well as individual employee) performance metrics across departments in real time. Using data analytics, branch managers and banking executives can get a bird's eye view of the branch's performance based on multiple metrics, including customer acquisition and retention as well as employee efficiency and turnover. Less than one quarter of banks have implemented a comprehensive big data solution, but of those who adopted one more than a year ago, 70% have met or exceeded business expectations.[11] For instance, BNP Paribas collects and analyzes data on its branch productivity to identify and swiftly fix existing problems in real time.

Building a data-driven organization

Being a truly data-driven organization means much more than just tracking and leveraging data. Leading banks understand the importance of using data like oxygen – as a fundamental part of everyday business, recognizing people and teams who take full advantage of data and identifying champions who can lead by example. They are also willing to quantify the value of initiatives undertaken and to illustrate the revenue and cost savings potential when decisions are supported by data. Because the battle for talented data scientists, engineers and data analysts is so fierce, many banks aim to provide training in data literacy and research methods for their own employees by partnering with external solution providers to bolster internal capabilities. For example, TD Bank developed a data and analytics program including case studies and simulations for its non-analytics executives.

To further support a person-first data strategy, many banks are also developing a culture of documenting anything that will benefit customers or coworkers, from standard operating procedures to best practices learned through years. Capital One uses a knowledge engagement platform to transform employee collaboration and eliminate silos caused using multiple knowledge management systems across functions.

Empower branch employees and encourage them to assume more strategic roles

The pandemic required an immediate focus on remote working solutions, which caused serious problems for some banks that struggled to maintain the required standards of operational resilience. Regulators around the world continue to look on as they battle to address any remaining gaps in technology or accessibility to ensure employees can effectively and securely work from home on a more permanent basis.

At the same time, when customers visit a branch, they want to be engaged, receive personal attention and not have to wait long hours to be served. As both workplace and consumer behaviors are changing, banks need to empower their employees to deliver exceptional experiences to customers who seek seamless interactions regardless of the channel.

Based on our deep industry experience, ISG recommends several ways to enhance branch employee effectiveness:

Conduct future-of-work assessments and draft a hybrid work policy outlining the processes and tools that employees can leverage to do their jobs more effectively, along with the associated data security measures.

With hybrid models taking center stage, solicit employee feedback about their working preferences (for instance, the desired frequency and duration of work from home/office) and ensure organization expectations are appropriately aligned. Do not ignore the feedback.

Train employees (as part of a long-term development program) on all the collaboration tools, technologies and customer information to help them serve customers effectively without transferring calls to another staff member or putting customers on a lengthy hold. To illustrate this point, a European multinational bank uses a voice-to-text AI tool to narrate their customer reports rather than filling them out manually. This led to an 83% reduction in the time employees spent on reports,[12] allowing them to fulfill more valuable activities that could drive greater revenues. Similarly, Morgan Stanley developed a virtual assistant that extracts information from thousands of reports to help employees find customer content more efficiently and make customer relationships with the bank stickier.

Create secure rooms equipped with videoconferencing technology to serve customers with complex product needs in a confidential environment. When Nationwide used videoconferencing, the bank's mortgage sales performance went up by 66%, customer satisfaction improved by 70% and the cost of sale was cut by 66%.[13]

Invest in workforce management solutions to monitor and measure staff performance, determine best practices and identify opportunities to coach employees in alignment with their own career development goals. Union Bank of the Philippines encourages its bankers to go beyond just being tellers and act as financial advisors. The bank's branch staff are ready to offer advice and guidance on financial tools, opportunities and other services to customers. This empowerment helped reduce transaction processing time from an average of an hour to about 15 minutes.

Moving from multichannel to an omnichannel approach

Bank branches are now expected to serve as the focal point and the foundation for creating a seamless omnichannel banking experience. As the only channel for face-to-face human interaction, the branch still represents one of the best opportunities to positively influence the customer. Many banks have already made the transition from purely branch centered, single-channel selling to multichannel strategies. What they often lack, however, is a link between the channels.

Interruptions in the customer journey cause customers to experience the banking process as lengthy, overly complicated and frustrating. Successful omnichannel implementation involves a more “customer-centric experience,” where customers who switch between digital and physical channels maintain a consistent and unified experience. Think of someone leaving a branch after a mortgage conversation with a video banker, who can them immediately continue the journey on her tablet in the coffee shop across the street. To accelerate the implementation of successful omnichannel initiatives, banks must embrace several key technology and customer experience enablers.

Adopt an API-driven approach to seamlessly switch between channels

Banks need to streamline systems to make it easy for customers to pick up where they left off when changing channels, so they can avoid reauthenticating their identity each time they are transferred to a different department. An API layer between the front end and the core infrastructure helps to ensure seamless switching between devices. In fact, the expanding world of APIs offers handoffs between digital and physical channels that can be used to build much better experiences across much of customer engagement. Instead of a physical appearance at the branch, an API can capture and verify information like phone data or scan a selfie shot as a method of securely authenticating consumers. TD Bank has a personalized authentication system across its channels that allows customers to choose their preferred type of login method, such as a fingerprint or a selfie, and authenticate the same way every time.

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Use IoT to know your customers better and enhance customer experience

Increasingly, banks find adopting the Internet of Things useful in providing an enhanced omnichannel experience to their customers and driving revenue growth by building on their inherent advantages:

A mostly loyal customer base and a large physical branch footprint. By enhancing the customer experience with smart-sensor technology and predictive analytics, banks can expect greater retention and an increase in cross-selling opportunities. Citibank uses beacon technology to provide personalized, relevant mobile experience to customers based on their location. The bank offers a secure way to open ATM doors, and alerts branches when VIP customers enter a bank branch. The bank installed Bluetooth beacons at exclusive branches that allow customers to enter ATM lobbies after hours without their debit or credit card, using their verified iPhones and Apple Watches as digital keys.

Leverage interactive walls to provide relevant offers and information instantaneously

To deliver channel-agnostic customer experience at scale, the digital and physical channels need to mutually reinforce each other. Banks can support branch digitization with interactive digitals walls that can be used to achieve more effective communication. Screens identify a customer through facial recognition, gamify interactions and use analytics to identify the most relevant set of offers based on that particular customer's profile.

In addition, digital signage gives banks a branch-wide digital platform to improve internal communication and manage content effectively. In 2019, Banco Galicia implemented digital signage that improved employee communication and allowed the bank to provide relevant information to its customers in real time. Payback for investment in digital signage can be as little as 18 months and digital displays are proven to reduce perceived wait times by up to 35%.[14] Moreover, 95% of retail banks that have implemented digital signage are "highly satisfied" with the impact on customer experience and associated income.[15]

To deliver channel-agnostic customer experience at scale, the digital and physical channels need to mutually reinforce each other.

Conclusion

There's no doubt that the world has changed more in the past 18 months than at any time in many generations. In terms of banking, the pandemic merely accelerated a number of trends that were already underway — digital customer engagement and flexible working being two key ones. As customers, we want our bank to treat us personally, understanding our issues and needs through multiple channels on a timely basis. To achieve this, banks must reimagine their branch network and deploy a much more nuanced customer engagement strategy, underpinned by a coherent and clever data ecosystem.

This strategy will involve a combination of technology, creativity, innovation and employee enablement, which is why the definition of a next-generation model for ways of working has become paramount for most banks. A happy, empowered workforce will be more productive and generate a much better experience for customers, who in turn will buy more products, thus driving up revenue and margins for the bank. This virtuous circle is why the reinvention of bank branches is something to be embraced, not feared.

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