Still open for business

*Banks are pruning branches as the digital revolution takes hold but, as **Richard Tomlinson** explains, new technology also offers the best hope for the retail network's long-term survival*

At the Branch Transformation 2016 retail banking conference last December, one keynote speaker almost made the humble customer sound like a threat. "So long as there are branches, the customers will keep coming," observed Mike Bielamowicz , a senior executive at Glory Global Solutions, the US cash management company.

Bielamowicz made clear that there were plenty of opportunities for banks to make more money out of their retail networks. Indeed, the sales floor of the conference, held at a London hotel, was packed with self-styled "solutions" for turning bank branches into profit centres. Among the most popular products were high-tech coin-counting machines, designed to release bank staff for more productive activities. "Coin handling is ugly, dirty and labour-intensive," explained Shane Murphy, of Cummins Allason, another US currency management company, making the whole business sound like coal mining.

An audience of several hundred financial sector executives heard Shane Rowley, director of national expansion at Capital One, the US bank, deliver a slick video presentation about how converting a branch into a café can attract more customers. "You will find much more café than bank," said Rowley, "but make no mistake, it's still a bank."

As the substantial conference attendance confirmed, "branch transformation" is a priority for retail banks on both sides of the Atlantic. Yet the same banks continue to shut loss-making or scarcely profitable branches, with no end in sight to their closure programmes. In the US, the downward trend is relatively gentle; about 1,600 bank branches have closed in the past year, out of a total of about 92,000, according to research by S&P Global Market Intelligence.

The decline is steeper in the UK, where the number of branches operated by the seven largest retail banks has fallen by 11 per cent since January 2015 to just over 1,000 outlets. HSBC has been the most aggressive branch cutter among the big four high street banks, shutting 321 branches, representing 27 per cent of its UK network. During the same period, Lloyds has reduced its network by 14 per cent, followed by Royal Bank of Scotland (RBS)(10 per cent) and Barclays (8 per cent).

All banks in the US and Europe cite the digital revolution to justify their retreat from bricks-and-mortar banking. RBS, for instance, says that the number of "simple transactions" undertaken at its NatWest and RBS branches has dropped by 43 per cent since 2010, while online and mobile phone transactions have more than quadrupled. In effect, customers are voting with their feet, with the British Bankers' Association (BBA) forecasting that the average number of visits per day at UK bank branches will fall from about 70 in 2016 to about 50 in 2021.

It may seem strange, therefore, that digital technology, intelligently applied, may offer the best hope for the long-term survival of bank branches. The Nationwide Building Society is not a bank, being owned by its members, but its UK network of 700 retail branches competes directly with Lloyds, Barclays and other high street lenders on everything from current accounts to mortgages. In recent years, the number of Nationwide branches has remained stable, with the society in the middle of a £500m branch investment programme.

"The importance of a branch for our members is that they have a human face they can talk to," says Graeme Hughes, Nationwide's group director for distribution.

Hughes says the installation of high-tech video links in 400 smaller outlets has helped make these branches more cost-effective. Video calls allow local customers enquiring about mortgages or other financial products to talk remotely to a qualified Nationwide expert – removing the need to staff every branch with a full range of advisers.

> *The importance of a branch to our members is that they have a human face they can talk to*

Back at the Branch Transformation conference, Owen Kilbane, a business development manager for Kofax, the US software company, was one of many attendees promoting the benefits of digital "solutions" for bank branches. To prove his point, Kilbane showed off a Kofax product on his mobile phone that lets customers securely scan passports, driving licences or other documents required by a bank when processing, say, mortgage applications. "This doesn't make the branch irrelevant," said Kilbane, brandishing his phone. "Instead, it frees up more time for branch staff to discuss business rather than process with their customers."

The running theme, from video links to mobile phone apps, is that a digital future is not necessarily going to destroy a retail banking model even older than the City of London. For, despite the gloomy headline numbers, there are small signs that predictions of the imminent demise of branch banking may be premature.

A survey of 3,000 people published in January 2017 by Accenture, the consultancy, reported that 53 per cent of respondents visited their local branch at least once a month, compared with 47 per cent in 2010. Digitally aware younger customers were especially keen to discuss major financial decisions with branch staff, according to the report. Yet any bank committed to maintaining a branch network will need to spend heavily to fend off purely online competitors, which all talk up (with varying degrees of truthfulness) their cheaper operating costs and fee structures.

"Retail banking is the perfect digital service," Jason Bates, the co-founder of Monzo (formerly Mondo), the online bank, told the December conference:"There is nothing to take home apart from a plastic debit card."

It all sounds so simple, yet investing in bank branches is undeniably complicated and expensive, whether it is installing time-saving technology or making the front of the "shop" more welcoming.

In the UK, Metro Bank is the most conspicuous champion of this latter approach, which could have been borrowed from Capital One in the US. At Metro's flagship branch on London's Tottenham Court Road, the soft armchairs, open plan floor design and warm lighting are all designed to make customers linger longer to discuss their mortgages or investments with friendly staff. You half expect to find an ATM machine that serves cappuccino. Yet tellingly, Metro's network stretches no further than Milton Keynes to the north, Newbury to the west and Eastbourne on the south coast. It appears to be, unashamedly, a retail bank for middle-class south-east England.

This geographic bias points to a seemingly intractable problem for all banks when they consider which branches to cut and which to keep. It is unsurprising that the deepest branch cuts have fallen on the most isolated, thinly populated rural areas, where outlets make little or no profit. At one extreme, north-west Scotland, rural Wales and south-west England lost 1.5 or more branches per 100,000 residents between April 2015 and April 2016, according to banking industry and government statistics. By contrast, there were no closures in the same period across wide swathes of affluent central and suburban London.

It is also unremarkable that the banks are extremely sensitive to any suggestion that they care less about customers in, say, Wester Ross than Surrey because bankers are still struggling to repair the terrible damage to their public image caused by the 2008-09 financial crisis. Speaking for his members, Anthony Browne, the BBA's chief executive, declared in November 2016 that "the banks are very aware no customer or business should be left behind and branches play an important role in the life of local communities".

It is equally natural that the loudest protests against branch closures have come from older people, often living in rural areas, and the charities that represent them. It is this section of the population that is most resistant to doing its personal banking online. Last year, a survey conducted for The Finance Foundation charity found that 46 per cent of older people (broadly, 60-plus) preferred face-to-face transactions in branches to using "machines", referring to ATMs that are supposed to reduce queues at the counter.

The other side of this picture is that plenty of older people, including many who live in the countryside, are habitual internet users who do much or all of their basic banking online. It is a myth that anyone born before 1960 is by definition a technophobe. (This is annoyingly reinforced by Monzo, which features a photo of about 50 employees on its website, only three of whom look older than 40.)

Nonetheless, the real surprise is how little either government or the banking industry has done to address the impact of branch closures on older people, especially those living in isolated areas. There is no legislation or regulation governing access to branch networks, only an industry "protocol" on branch closures, which has been in force since 2015. To an outsider, the wording of the protocol is so loose as to be almost meaningless. Among other commitments, signatories must offer "an alternative way to bank that helps customers and small businesses continue to bank locally" (read, use an ATM or go online); assess the "potential impact" of a closure on branch users; and consider "the number of vulnerable and other branch users who are more dependent on their branch than others".

A review of the protocol for the BBA by Professor Russel Griggs in November 2016 concluded that while the banks had "tried hard" not to see the protocol as a "tick box" exercise, they were not always getting their branch closure programmes "totally right". It is arguable that the banks have been put in an impossible position, obliged to explain to shareholders why they are keeping loss-making branches or bow to political pressure and retain what is essentially a community service in far-flung parts of the country.

> *"Banks are very aware that ...branches play an important role in the life of local communities*

As it happens, a genuinely national retail network, with 97 per cent of the population living within one mile of a local branch, already offers basic banking services such as cash withdrawals and deposits. The Post Office manages 11,500 outlets across the UK, including sub-branches operating from local grocery shops and even the occasional pub. The state-owned group is also keen to expand further into banking.

At first glance, the Post Office would seem an ideal alternative vehicle for serving hard-to-reach bank customers. But there is a catch. The Post Office is also under pressure to close outlets in the same remote, rural areas. If the closures happen, local customers will have even fewer places to cash cheques, deposit money and perhaps even take out a mortgage. ■

Richard Tomlinson *is an international business writer and historian who has written extensively about France. His latest book, Amazing Grace: The Man who was W.G., is published by Little, Brown*