



The challenge of digital transformation: Farewell to the traditional bank branch?

A white paper by Auriga

"The branch of the future" is an expression that is more fashionable than ever. It's perhaps not entirely new, but the transformation of branches is gathering momentum. Banks around the world are facing an unprecedented set of challenges: regulatory constraints, constant pressure to reduce costs, increasing competition from new entrants and customers' ever increasing demands for a "seamless omnichannel" experience.

In the context of the reduction of the number of branches in Western Europe the challenge facing banks when it comes to the branch of the future is threefold: to 1) retain customers, 2) whilst improving profitability and 3) attracting new customers.

Banks need to address these issues against a backdrop of branch closures (the UK lost 40% of its total branch network between 1989-2012¹ and numbers are predicted to fall further – by around 9,800 or 9% by 2020²); reduced footfall in branches (average visits per branch a day have fallen from 104 in 2011, to 71 in 2016 and an estimated 51 in 2021³); and a diversification in the way customers bank (in 2015 UK current account customers visited their bank branch 427 million times compared with 895 million log ins on a

mobile banking app and 705 million on a computer⁴).

So what are the most important elements that banks need to consider?

Banks must rethink and reposition branches - the cornerstone of sales and underwriting of financial products - in their distribution strategy and relationships with customers. Studies clearly show that the branch channel remains very important to the public (62% of British adults prefer face-to-face service in comparison to internet banking on 28%⁵).

Paradoxically, despite the fact that some customers are quite conservative in their relationships with their bank, they also expect banks to offer them new ways of interacting that conform to their changing lifestyle. So as banks grapple with the transformation of their branches, they need to ensure that the new configurations of branches actually enhance their services and ensure that they reinforce rather than undermine customer relationships. The "digital branch" must be a positive benefit to relationships with customers, not a dehumanized "robo-bank".

1. "The Changing Geography of British Bank and Building Society Networks, 2003-2012", Sean French, Andrew Leyshon and Sam Meek, 2013.
http://eprints.nottingham.ac.uk/2199/1/ChangingGeographyofBritishBank%26BuildingSocBranchNetworks2003-2012_FINAL.pdf

2. "Global ATM Market and Forecast to 2020", Retail Banking Research (RBR), September 2016.
<http://www.rbrlondon.com/reports/global>

3. "The Way We Bank Now", BBA, 2016.
https://www.bba.org.uk/wp-content/uploads/2016/07/TWWBN3_WEB_Help-at-Hand-2016.pdf

4. "Access to Banking", CACI Research, June 2015.
https://www.bba.org.uk/wp-content/uploads/2015/06/BBA01-448576-v1-CACI_Retail_Banking_Conf_-_PowerPoint.pdf

5. "Preferred channels to access bank services in Great Britain as of January 2014", statista.com, 2014.
<https://www.statista.com/statistics/386812/great-britain-uk-preferred-banking-channels>

Hybrid bank branch with a self-service activity

Banks know that they need to differentiate themselves to attract and retain customers, but on top of this they must also preserve their value and relevance in an industry that is changing with increasing speed. They are not only compared to other banks, but the benchmarks and even the rules of the game are also changing. The smartphone generation has very different expectations from that of Generation Y or Z and that is very likely to shake the banking sector.

If functionalities and customisation across all channels were key in the years from 2000 to 2015, the main challenges for the omni-bank in 2016 is to maximize value and customer experience across all channels. However, customers' preference for autonomy is tempered by the desire to maintain quality relationships with employees of the bank, in particular but not exclusively, for advice.

The hybrid digital branch allows the bank to expand its offering while maintaining the same number of employees. So despite a reduced staff presence, it is possible to extend the opening hours to the public. The staff is now versatile, the attendant at the counter becoming an advisor and a source of new business.

Automated branch with advisors 3.0

Highly automated branches integrate and combine the best technological solutions, but they also rely on their employees to deal with relationship issues and provide advice to clients. The new "digital branch" extends the range of possibilities (semi-automated operations) to include what was previously done by machines as well as providing access to new services.

However, customers should never be taken for granted and the bank should miss no opportunity to interact with them in branch. The client should be at the centre of the branch to guarantee a consistent customer experience. Everything must be done by the bank to guarantee a 24/7 service and a consistent user experience, continuous,

coherent, personalized and accurate across all the distribution channels.

When a customer inserts his card into a device, the system recognizes the customer and the bank employee in the branch receives notification on his or her tablet, with updated customer information and personalised product offers. The tablet becomes a business tool, used to display brochures and connects via WiFi to an external monitor for a better customer experience.

And the mobile device is not just a way to target commercial opportunities; it is also a way to track self-service activities, allowing advisors to intervene in case the customer encounters difficulties or has a question during an operation. While most operations can be carried out by the customer, others require assistance. The tablet facilitates continuity of service even in the case of minor events, which increases customer confidence in the use of automated services.

However, it often turns out that it is the design that the customer does not see - the submerged part of the iceberg - which, ultimately, determines the success of a concept. Banks must have an operating model "branch of the future" and ad hoc software solutions to meet the challenge.

The branch is not doomed to disappear: the other channels, mobile and Internet will not replace the traditional branch but will integrate with it. However, the road to the branch of the future is still long, despite the fact that UK banks are starting the rearrangement of their branches and to incorporate new designs. Change comes slowly, but come it will.

