WHITE PAPER

Embracing the Branch Strategy Revolution

Industry Trends Demand Bank Executives Rethink Branch Strategies to Compete and Comply

Banks face a branch strategy revolution. Changes in consumer behavior, delivery channels, innovation and compliance requirements are forcing banks to adjust their branch networks in order to remain competitive.

In this White Paper, you'll learn how leading banks are right-sizing their branch network, using new tools to increase profitability, reduce cost, improve customer service and maintain compliance.

The Death of the Bank Branch?

Upon hearing rumors of his death in 1897, noted American author Mark Twain famously responded, "The report of my death was an exaggeration."[1]

However, much like the Twain article, reports of the death of the bank branch have also been exaggerated. While it's true that the role of the branch is evolving, the bank branch will continue to play an important role in the delivery of financial services for years to come.

One key change is that the bank branch is no longer the primary way that consumers interact with their bank. New technologies including mobile apps, additional delivery channels like deposit-taking ATMs, and changing consumer behaviors are reshaping the way banks are expected to serve their customers and their communities.

In addition, regulatory scrutiny has increased. Fair Lending, CRA and Redlining compliance, with their guidelines for how and where to serve customers, are top priorities. Compliance is a key consideration in ATM and branch network configuration and growth plans.

The best institutions are aware of these changes. That's why they're adapting, by creating a Branch Network Optimization and growth strategy for their branch network and delivery channels. This plan maps to their customers' needs, compliance requirements, and business objectives.

For some, this may mean closing or relocating branches, and investing those resources in other channels. For others, it may mean opening new branches in underserved markets. In every instance, this strategy helps banks and credit unions right-size their business to reduce waste, cut spending, encourage growth and improve profitability.

In this white paper, we'll explore the new banking environment, benefits of optimizing the branch network, potential hazards of not developing a strategy, and how to close branches and still improve your bottom line – all while maintaining compliance.

[1] "Reports of Mark Twain's quip about his death are greatly misquoted." Published May 31, 2015. http://www.thisdayinquotes.com/2010/06/reports-of-my-death-are-greatly.html.
[2] Wall Street Journal. "Bank Branches in U.S. Decline to Lowest Levels Since 2005." Updated Sept. 29, 2014.

Changes in the Branch Network – And What's Driving Them

The number of bank branches peaked in 2009, at 99,544. While the number of branches has declined in the years since the financial crisis, they still total 93,272[2]. In addition, the number of FDIC-insured commercial banking institutions peaked in 1984 at 14,483[3]. In 2015, the number has fallen to 5,330[4].

Brick and mortar branches continue to be among the most important, but also the most expensive, delivery system for financial services in the United States.

Consumers that use both digital and physical channels tend to be more loyal.

41% of consumers say that constant access to their financial via an app reduces their stress.

81% of consumers would not switch banks if their primary bank closed their local branch.

Infographic sources below, in order, left to right [5] [6] [7].

The physical branch network continues to be the primary distribution channel for attracting new and existing customers, cross-selling new deposit and loan accounts to existing customers, and conducting complex transactions that require face-to-face interaction between customers and bank personnel.

The branch also gives the bank a visible presence on the retail landscape. Banks with a branch presence in a submarket or trade area have an insurmountable advantage over banks with no physical presence for penetrating that trade area, replacing lost and growing deposits and loans.

Although the branch network is very expensive to operate, it continues to be a critical channel for the delivery of financial services. That said, there are some major changes in branch banking. Below are some of the factors driving those changes.

[2] Wall Street Journal. "Bank Branches in U.S. Decline to Lowest Levels Since 2005." Updated Sept. 29, 2014. http://www.wsj.com/articles/bank-branches-in-u-s-decline-to-lowest-level-since-2005-1412026235.
[3] FDIC. "Number of Institutions, Branches and Total Offices." Accessed Sept. 21, 2016. https://www5.fdic.gov/hsob/HSOBRpt.asp.
[4] Ibid.
[5] Bain & Company. "Consumer Behavior and Loyalty in Retail Banking." Nov. 18, 2015. http://www.bain.com/publications/articles/customer-loyalty-in-retail-banking-2015-global.aspx.
[6] Bank of America. "Trends in Consumer Mobility Report." 2016. http://newsroom.bankofamerica.com/files/press_kit/additional/2016_BAC_Trends_in_Consumer_Mobility_Report.pdf.
[7] Accenture. "2015 North America Consumer Digital Banking Survey: Banking Shaped by the Consumer." 2015. https://www.accenture.com/us-en/~/media/Accenture/Conversion-Assets/Microsites/Documents17/Accenture-2015-North-America-Consumer-Banking-Survey.pdf.

New Technologies and Changing Consumer Behavior

Advances in technology have significantly improved the convenience and availability of financial services through non-branch channels such as enhanced functioning ATMS, online banking, telephone banking and mobile app banking.

ATMs: Today's enhanced ATMs can support your brand and improve customer service and extending market coverage. ATMs are one of the most-effective ways to conduct basic transactions, and can be an effective tool to help retain customers if and when a branch closes.

Online Banking and Mobile Apps: Online banking and mobile banking give customers a wide array of services and transaction capabilities from the convenience of their homes or offices. Today, digital is the primary method of banking for 62 percent of respondents, up from 51 percent in 2015[8]. In addition, 54 percent of respondents, and 75 percent of millennials, use a mobile banking app monthly[9].

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More than 62% of Americans say digital is their primary method of banking.

54% of consumers, and 75% of millennials, report using a mobile banking app.

86% of consumers trust their banks over all other institutions to safely and securely manage their personal data.

Transaction volumes are up, but down more than 30% in the bank branch.

Infographic sources below, in order left to right [10 11 12 13].

[8] Bank of America. "Trends in Consumer Mobility Report." 2016.
[9] Ibid.
[10] Ibid.
[11] Accenture. "2015 North America Consumer Digital Banking Survey: Banking Shaped by the Consumer." 2015.
[12] Bank of America. "Trends in Consumer Mobility Report." 2016.
[13] FMSI. "The Impact of Technology on Branch Transaction Volumes." Accessed Sept. 7 2016. http://www.fmsi.com/the-impact-of-technology-on-branch-transaction-volumes.

The effect of these enhanced technology channels on the branch network can be significant. Banks that do not offer these services can be at a competitive disadvantage versus those that do for retaining existing customers and attracting new ones.

In addition, the new channels have resulted in a steady reduction in the transaction volumes at branches, which means that existing branch staffs can sometimes be reduced and new branch facilities need not be as large as they have been in the past.

There is also evidence that the availability of these channels can reduce the attrition of customers when a branch is closed.

Consolidation is the New Norm

Consolidation has been a trend for decades, and is expected to continue. A new merger or acquisition seems to be announced almost daily!

Since the start of the financial crisis, there has been a 25 percent drop in the number of FDIC-insured banks and savings institutions, from 7,685 in 2007 to 5,733 in 2015[14].

M&A activity often creates a network of branches that fall short on measures of efficiency, effectiveness and synergy. Faced with the reality of these operational and strategic short falls, bank management must integrate and optimize acquisitions into their branch networks in order to quickly achieve growth goals.

Compliance Pressure Mounts

Compliance is a primary concern for lenders today, and it's a key consideration in any strategic growth plan. Why?

For one, compliance risks and regulatory actions can stall merger or acquisition activity. In addition, consumer protection regulations like Fair Lending, CRA and Redlining all have unique requirements that outline how, when and where a lender should serve consumer.

That means that when you're considering opening, closing or relocating a branch or ATM, or changing the hours or services offered, you also need to consider the compliance impact. Not doing so could expose you to compliance risk that can threaten your institution's health and security – and even leave you personally liable!

With the high cost and importance of bank branches, it is essential that banks do all they can to maximize the performance and minimize the cost of their networks.

[14] FDIC. "Number of Institutions, Branches and Total Offices." Accessed Sept. 21, 2016. https://www5.fdic.gov/hsob/HSOBRpt.asp.

Compliance costs represent 22%, or $4.5B, of the net income of community banks.

54% of compliance pros globally expect the total compliance budget to increase over the next 12 months.

More than half of financial institutions expect to spend more on senior compliance staff next year.

PLUS 32% of community banks list regulatory pressure as the top barrier to growth.

Infographic sources below, in order left to right [15] [16] [17] [18].

How Some Bank Leaders are Addressing These Challenges

The largest banks have in-house departments responsible for continually reviewing and updating their branch network plans. They use predictive methods and statistical models to project the likely customer and business impact of each branch change.

These projections, together with costs, market intelligence, customer behavior patterns and compliance implications, provide input into models so that branch and network decisions can be evaluated holistically and consider the ROI for each project.

However, most banks do not have the resources to develop an in-house department to create and implement their branching strategies.

In addition, hiring traditional location analysis consultants to look at individual markets and produce recommendations on specific projects can be very expensive and miss key compliance considerations. Their recommendations are often a one-time solution for a specific decision or set of decisions in a single geographic market.

Once the consultant's recommendations are completed, the bank still lacks the capability to analyze future projects or develop necessary, ongoing updates to branch network plans.

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[15] Federal Reserve & Conference of State Bank Supervisors. "Community Banking in the 21st Century." Annual Community Bank Research and Policy Conference, Sept. 30 – Oct. 1, 2015. https://www.communitybanking.org/documents/Community-Banking-in-the-21st-Century-2015.pdf.

[16] Thompson Reuters. "Cost of Compliance 2016." 2016. https://risk.thomsonreuters.com/content/dam/openweb/documents/pdf/risk/report/cost-compliance-2016.pdf.

[17] Ibid.

[18] Ken B. Cyree, Dean Day, Frank R. Day. "The Direct Costs of Bank Compliance Around Crisis-Based Regulation for Small and Community Banks. https://www.communitybanking.org/documents/Session3_Paper3_Cyree.pdf.

Bank executives know that, in order to survive and thrive, they need to seek new, better ways of managing their branch network and delivering financial services. That's why they are turning to Branch Network Optimization solutions.

As senior bank executives face the rapid evolution of their industry, they need to be prepared to position their banks for success. Adapting to the new environment must be a top priority.

Understanding Branch Network Strategy

Designed to help today's bank or credit union executive better identify and maximize the performance of branch networks, Branch Network Optimization solutions are transforming branch networks and growth strategies.

Branch network analysis, coupled with industry experience, enable bank executives to knowledgeably develop and execute a branch strategy designed for today's consumer.

These solutions leverage existing knowledge of branch planning, real estate considerations, recent technological advances, and data analytics to create a clearer, more effective branch strategy.

Branch Network Optimization solutions combine the latest demographic information with bank customer data to build comprehensive and actionable insights for enhanced branch optimization and efficiency, all without the need for additional staff or expensive software and training. It's about so much more than just closing branches.

Additionally, branch network and market planning must take into account all delivery channels and be a comprehensive strategy for optimizing the delivery of financial services in each geographic market, across the entire distribution network.

Optimization means creating an integrated, highly efficient, cost effective system that does the best job of attracting new customers while also deepening and enhancing relationships with existing customers. **If done correctly, this will have a direct and positive impact on the bank's profitability.**

Branch Network Optimization solutions enhance the institution's internal data with current demographic trends and third party insights. This powerful combination enables community bankers to project branch success more accurately than ever before.

How Right-Sizing Your Branch Network Will Unlock Potential

Branch Network Optimization will take a holistic view and analyze your entire branch network and all delivery channels. Branch Network Optimization will:

1. Identify branches that are candidates for consolidation, relocation, closure or even replacement with a full-service ATM.
2. Assess customer and transaction attrition rates, and determine the potential impact on other branches and channels.
3. Evaluate Fair Lending, Redlining or CRA compliance impact associated with adjusting the branch network and delivery channels.
4. Review the branch performance potential, and how that branch might meet or exceed that potential.
5. Consider locations for de novo branches that will increase market share, enhance customer service and improve profitability.
6. Review ATM placement and functionality to better serve customers.

After the analysis is conducted, expect a scorecard for each branch that will rank and score its performance relative to sister branches, peers and competitors.

This analysis will develop a comprehensive view of the branch network and delivery channels. With this knowledge, a clear growth strategy emerges, and bank executives gain a clear roadmap to be implemented in the future.

Branch Network Optimization is an incredible tool that allows you to serve your customers better while reducing your costs.

Key Questions to Consider When Improving Your Branch Network

Every bank executive should able to answer the following questions, and Branch Network Optimization can help:

- How does my branch network compare to my competitors?
- Do my non-branch channels encourage visits to the branch to purchase loans, credit cards, and other products?
- Which of my branches are performing at, below or above their potential?
- Do we have the correct hours of operation at each location?

- Do any of my branches have visibility, access or capacity problems that are significantly restricting their performance?
- Which of my branches are candidates for closure, consolidation or relocation?
- If I close a branch, what customer or transaction attrition can I expect? How will closing a branch impact other branches in the network?
- Should I target any markets for de novo branches, and if so, where?
- Could any of my branches be safely and profitably closed and replaced with a full-service ATM?
- What is the deposit potential of any merger or acquisition candidates?
- What is the compliance impact of any changes to my branch network or distribution strategy?
- How do I efficiently integrate my branch and ATM network with a potential merger or acquisition to maximize profit and customer service?

Benefits of Right-Sizing Your Branch Network

Branch Network Optimization provides bank executives with many important benefits, including:

- Increase deposit capture and forecasting deposit and market share growth. Know your power ratio!
- Identify the probable cause of underperforming branches and develop plans for improvement.
- Learn which branches in your network can be closed without regulatory pushback.
- Right-size your branch network and improve overall performance. Close and grow – it's possible!
- Allow executives to more accurately forecast revenue, profit, and branch usage trends within specific markets.
- Minimize attrition when closure or relocation is the right decision.
- Optimize newly acquired branch networks resulting from M&A activity and ensuring integration is efficient and successful.

New Technologies Empower Bankers

When done correctly, Branch Network Optimization yields actionable results that unlock potential and positively impact the bottom line.

In the past, Branch Network Optimization has been a labor-intensive and expensive process used only by the largest institutions.

Fortunately for the industry, over the last 18 months, there have been remarkable developments in cloud-based technology, data science, satellite imagery and data analytics that have driven costs down.

These new technologies, coupled with qualified branch planning and compliance expertise, combine to create a new type of Business Intelligence (BI) tool that provides senior teams the ability to develop a clear, efficient and profitable branch and network delivery strategy that better serves the customer, the stockholder, and the community.

TRUPOINT Analytics is a cloud-based solution that contains detailed market and compliance demographics along with the latest information on your competitors, customers, and market trends.

When coupled with TRUPOINT's extraordinary team of Branch Planning and Compliance Specialists, the TRUPOINT Analytics system provides valuable insight that can make the difference between a profitable and dynamic delivery network and one that is inefficient and costly to maintain.

TRUPOINT Partners helps our clients develop customized Branch and Network Optimization strategies that suit their business, budget and objectives. Whether right-sizing the network by closing under-performing branches, relocating existing facilities, or adding a new location, TRUPOINT's Growth Strategy team will leverage the TRUPOINT Analytics platform to deliver insight that is accurate, timely, and cost-effective.

To learn more about how your bank can become more profitable through branch network planning and optimization or to discuss your branch network needs, visit TRUPOINT Partners at www.trupointpartners.com or call us (704) 401-1730.

About TRUPOINT Partners

TRUPOINT Partners provides Business Intelligence (BI) tools that reduce risk, manage and improve compliance and empower lenders. Based in Charlotte, NC and serving more than 500 financial institutions nationwide, TRUPOINT specializes in Fair Lending, CRA, UDAAP, Branch Growth Strategies and BSA/AML compliance. We provide clear answers and expert insight in the areas of risk management, compliance, and network optimization.

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