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TALKING ABOUT

DATA SECURITY

TARGET BREACH ONLY THE LARGEST OF MANY

THE END OF
FREE CHECKING

DOUBLING DOWN
ON NEW YORK CASINOS

+INSIDE: SPECIAL SECTION ON THE FUTURE OF BRANCH BANKING

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Retail Banking Down, but Not Yet Out



I recently found myself sitting with a number of bank executives over lunch and I asked them about future trends within retail banking, particularly what goes on inside a branch, because it's the public face of so many financial institutions.

These days, retail banking is going through an uncertain period. Some banks, like Citigroup, are talking layoffs and branch closures, while other banks are doubling down and building new locations. The layouts for new Bank of America branches look more like a Starbucks, while floor plans for other institutions look like the main bridge of the starship Enterprise.

The comment that Academy Award-

winning screenwriter William Goldman hung on Hollywood rings true for banking; "Nobody knows anything." When you look beyond the bland quotes coming from senior management, you realize there is a lot of spaghetti being thrown against the wall, hoping that something will stick.

But the real question is this: With the rise in technology and the changing nature of how people shop for financial products, has your local bank branch become irrelevant? That certainly got the conversation started.

When my parents were starting out in Chicago, they had an account relationship with LaSalle Bank. Back then, people walked their paycheck into the

bank, wrote a check at the teller window if they wanted to withdraw money, and all of the tellers seemed to take a certain pleasure stamping the pass-books whenever a deposit was made.

Bank branches were more than mere buildings; they anchored the brand within communities. When Bank of America was only a California institution, strategic planners placed branches three to five miles apart in densely populated areas to ensure that there was always a branch located nearby. What made founder A.P. Giannini unique was he believed everybody – not just the wealthy – should have a banking relationship. He made a fortune. When Californians moved to the suburbs, a whole new generation of Bank of America locations were built to reflect the relaxed nature of life amongst the cul-de-sacs.

To put it another way, walking into a Bank of America or LaSalle Bank branch was like walking into the Grand Central Station of financial products. Wise bankers acted as ambassadors, guiding customers through a maze of products, including checking, savings, CDs, debit cards, retirement accounts and safe deposit boxes. They also referred customers to branded lines not normally found in retail banking, including investments, business services, home mortgages and other lines that fell outside the teller's role. And everything always took place during business hours.

SUDDEN CHANGES

Then technology changed everything. The first ATMs emerged in the late 1960s and became commonplace by the early 1980s. Within a decade, debit and electronic funds transfer at point of sale (EFTPOS) networks wired the globe, and cards once used to withdraw cash could now purchase a pair of shoes in Rome. The first computer

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banking programs began to emerge in the late 1980s (as people began buying PCs) but online banking did not explode until the advent of broadband. Within a short period of time, banks introduced smarter versions of online billpay, which allowed customers to pay their bills through their laptops.

However, smartphone apps was the great game changer; it allowed customers to make their deposits online by taking a digital image while sitting in their backyard, lounging among their plants, or even in the middle of Thailand.

Today, people can pay their bills, move money around, get a real time update of balances, receive email alerts, or connect with their e-wallet through their iPhone 24-7, and I have no real reason to walk into a branch anymore. Or do I?

What terrifies bank executives is that their core customer is doing more and more of their business outside the bank. As a result, it's getting much harder to cross-sell them new products to build a lifetime relationship. That means customer loyalty is increasingly up for grabs.

How do you retain a profitable customer who you may never have met? How do you build new relationships when customers may open an account online and handle their finances at home on their iPads?

Technology has allowed banks to cut costs while giving customers 24-7 access and control over the banking relationship. Banks have trained customers to handle their simple transactions outside of the branch, via online chat, live conversation, or by managing it themselves through online banking.

When it comes to customer acquisition, major banks have made the mistake of confusing marketing with sales. I receive mail from Chase offering me \$250 if I open up a checking account. These mailers address nothing of value – their pitch runs to the dollar amount. If I'd leave my current bank for \$250, I could just as easily leave Chase for half that amount.

PORTALS OF KNOWLEDGE

Capturing operational accounts of small to medium-sized businesses still remains the Holy Grail of retail banking. Bankers can expand that business relationship with new products. They can also reach out to the employees of those businesses and sell other banking products to those employees.

Banks walk a fine line – the current economics of retail banking make it challenging to sustain retail branches and ATM networks for the long term. However, bank executives believe that they need a branch presence to create new relationships or else they're doomed.

Here are my two cents on the issue.

I believe that major financial institutions could gradually reduce their branch network by 40 percent over a five- to seven-year period with minimal customer interruptions if executed correctly. However, like any decision, it's making sure that you reduce the right 40 percent.

Merely taking an ax to your branch network is the short-sighted approach. Customers with complex personal and financial relationships still need a banker to guide them through the minefields of life. If you run a small or medium-sized business, you'll need the help of a financial professional. If you have language challenges, having bilingual assistance at the teller line is critical.

However, most large banks still have huge outlays in square footage, with staff levels that could either be reduced or repositioned to better serve customers.

There are some who believe that once you plant a flag by opening a branch, it should never be closed. That strikes me as leadership which is both insecure and blind to the changing nature of banking; it should also raise a red flag at the board level.

So what should be the role of retail branches in the 21st century? Attract new clients by consistently educating and informing them. In today's world,

people looking for banking services are not fools. There is little difference between the mega brands. Banks are not going to attract lifelong customers on a mailer that promises \$250 only after customers jump through a series of hoops.

Branches should be positioned as portals of knowledge. Tomorrow's banks will be all about building financial literacy. They should be about teaching their customers how to filter out the noise and focus on building plans that will carry them from their first checking account until their funeral.

Each location should be its own learning annex, and should have weekly lunchtime or evening classes addressing building a financial nest egg, opening a business, preparing for a long-off college tuition, or simply living within one's own means. Then banks should leverage the technology in which they've invested billions of dollars to push that information outward – not unlike what Khan Academy does for academic courses.

Assume you live in a medium-sized city of 150,000, and it has four to five Bank of America locations. If the footprint is reduced to two Bank of America money centers, branches that primarily cater to the needs of business clients, complex personal transactions, and serve to anchor your community for other personal needs, Bank of America will have maximized their branch outreach with more focused resources.

It is the missing consultative piece that contributes in a significant fashion to the bank's value proposition. That is also how you can build relationships as opposed to merely signing up checking accounts. A bank's retail branch should focus should be squarely on teaching their customers how to fish, because that's how you build lifelong relationships in the 21st century.

This article previously appeared on the Huffington Post. This is an edited version. ■