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18 FOR '18 #12 BRANCH STRATEGIES

THE BRANCH OF 2018

JEFF MORRIS HAS A VISION FOR THE BRANCH OF THE FUTURE. BUT WHILE TECHNOLOGY IS CERTAINLY A PART OF IT, IT'S NOT ALL ABOUT THE BELLS AND WHISTLES.

"When you walk into the branch of the future, it's going to look more like a personal financial planning office," says Morris, the managing director of ProBank Austin. "You can sit down in a private office with a personal banker one-on-one and talk about your needs."

That means the traditional teller line with multiple stations will disappear, replaced by technology – ATMs or ITMs (interactive teller machines) – often positioned to be accessible 24/7. But it also means a different type of employee.

"You need someone who can speak to the client about their financial options and decisions," Morris says. "You need someone who can deal with something more than how much money they want out of their checking account today."

As a growing segment of the population demonstrates a preference for handling transactions from a phone or laptop, the teller line may eventually become a relic of the past. But there are many ways a community institution can align its branch network with what customers need right now to prepare for a prosperous future.

RECALIBRATING THE BRANCH NETWORK

As transactions move away from brick-and-mortar branches in favor of the internet, it's important that community institutions approach their branch network thoughtfully. Morris recommends that at least every three years, institutions focus their strategic planning process on an in-depth look at the healthy and dying limbs of their branch networks.

"You're basically weighing the fixed cost savings that would result from closing a branch against the profitability of the core deposits that'll be lost," he explains. "That's the tipping point."

The public relations issues associated with closing a branch aren't what they used to be, meaning institutions don't necessarily have to fear the optics of shuttering the occasional branch. As ATM networks grow and digital becomes increasingly dominant, customers tend to understand and accept the reality that they may have to travel a little further to access a brick-and-mortar branch – provided reliable and convenient digital services are still available to them.

Assessing the branch network at least every three years is essential because change is happening ever more rapidly in a digital world, and wider gaps between those reviews could mean missing important opportunities to redirect branch costs into digital channels, to open a branch in a more strategic location or to alter an existing branch.

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>
> *Jeff Morris, Managing Director, ProBank Austin*

"The branch is not going away," Morris says. "It's still important, but a lot of community institutions have a smattering of branches within their network that if they could convince themselves to do something different with them, they would be better off financially."

THE CHANGING LANDSCAPE OF LENDING

That something different may indeed be serving as a meeting place where customers can have serious, in-depth conversations about their financial needs with experts who care – conversations that have traditionally centered on mortgages and other loans. But is lending as likely to get customers in the door as it used to?

While community institutions may offer attractive and competitive mortgage rates, for example, many borrowers are moving toward online lenders – despite some having higher rates and fees. Millennials in particular are attracted to the convenience of online applications, often leading them to favor online upstarts over local options that could potentially save them money.

"The community bank gets bypassed in a Google search, and the only way you'll find it is if you know somebody," says Morris.

This puts community institutions in a tough position, since they can't simply rely on word of mouth or the branch-as-billboard strategy to pull in Millennial borrowers. New to the home market, Millennials aren't necessarily yet turning to each other for advice, and if an institution is relying on them driving past a branch for the hundredth time and finally popping in to see what rates are like, it's likely to be a long wait. While these problems may be new, however, the solutions are time-honored.

"The main point is what it's always been for community institutions – stressing the local commitment, the superior service, the in-depth knowledge of the local market and better rates without all the fees," Morris says.

RETHINKING GROWTH

In the 2017 FMS research study "Community Mindset: Bank and Credit Union Leadership Viewpoints," 47% of respondents noted that adding branches was an important factor for growth. While that may still seem like a healthy percentage, Morris was quick to flip the figures to put things in perspective.

"If you had done the study ten years ago, that number would have been 90%," he says. "I would look at that as 53% of respondents don't think that adding branches is important. That 47% is only going to go down."

The truth, then, may be that the "branch of the future" simply means many institutions will find that they're able to grow without opening as many branches, and will instead focus on ensuring that the branches that remain are as vibrant, active and profitable as possible. ▪

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