FMS Update

JULY 5, 2016

SESSION RECAP: BRANCH TRANSFORMATION STRATEGIES

Changing Channels

The shifting role of the branch at community institutions

JUST as one wouldn't expect to attend a conference for community institutions in this day and age without running across at least one session dealing with CECL, the notion of a presentation focusing on branches at such a gathering is almost just as much of a foregone conclusion in the current environment. There's a good reason for this phenomenon, and it has nothing to do with a lack of creativity on the part of organizers; quite simply, CECL and branch strategy are both formidable challenges that almost every community institution is going to have to deal with in some way, shape or form in the coming years.

It should perhaps come as no surprise, then, that the branch transformation strategies session with **Jeffrey Morris** of Austin Associates, LLC drew a sizable post-lunch crowd at this year's Forum. Those attendees who weren't already dealing with declining branch traffic and customer migration toward digital channels nevertheless likely came in with the feeling that it was probably just a matter of time.

A Broader Viewpoint

In something of a change of pace from now-standard sky-is-falling branch discussions, however, Morris opted to frame the challenges facing community institutions not just as a banking conundrum, but rather an issue facing all kinds of retail businesses. In fact, he noted, many other retail industries have already dealt with much more technological and competitive disruption when it comes to brick-and-mortar outlets than community institutions have, which gives the banking industry an opportunity to recognize those patterns and to perhaps apply some of those lessons to their situations.

For example, Morris noted that while Amazon has certainly cut into the sales of more traditional retailers, the positive result of this incursion has been twofold – Amazon has introduced a number of new technological innovations that will likely spread across the industry, while those traditional retailers have been forced to step up their game on the mobile and online fronts in order to remain relevant in the marketplace. So while community institutions may bemoan the fact that some of their customers are ditching their branches and seeking out better technology and more convenience from bigger rivals or fintech players, they may decide that the key to survival is to upgrade their technology as well – and fast.

A Different Model

But even while acknowledging the increased competition, the increasing influence of technology, the need for cost savings and the impact of new millennial customers, Morris noted that community institution branches don't necessarily have to go away. They do, however, need to change, and to become just one part of a new multichannel mix.

The numbers that he offered during his presentation certainly don't lie. Branch closures over the past decade and estimates for the percentage of banking transactions that will migrate to a digital channel by the year 2020 both point to a trend that cannot be ignored. Morris argued, however, that the physical branch network

continued on page 2 >

Changing Channels

from page 1

nevertheless likely will still have a place in the multichannel mix for most community institutions going forward, but more likely as a still-powerful brand representation and a vital touchpoint for service and advice rather than a transaction-heavy hub. The key will be outfitting those branches with the appropriate technology and staffing to reflect the fact that fewer customers are going to be coming through the doors to see a teller about basic deposits and withdrawals. Instead, they will be visiting to discuss loan options or to get assistance with wealth management services.

The major challenge, Morris concluded, will be to ensure that this move to a new multichannel network – which incorporates the branch as simply one channel among several – results in a network that is more efficient than the traditional branch network that preceded it. ■

A Changing Environment

In light of the many changes impacting branch usage and profitability, Jeffrey Morris noted a number of potential ways that community institutions are attempting to adapt and respond to the shifting landscape, including:

- Changes in number, size and locations of branches
- Increased use of automation
- Greater use of specialized staff
- Private offices instead of teller lines, with an emphasis on personal advisory services over transactions
- Non-staffed, fully automated branches
- Remote advisors