

## Physical branches: Resource or relic?

### Consumer insights inform branch strategy in the 21<sup>st</sup> century

**Summary:** As technology improves and consumers are increasingly banking through digital channels, many bank brands are wondering whether they should be closing branches. Yet, our research has shown, across numerous banking studies, that “convenient branches” are among consumers’ top 3 priorities when choosing a new bank (if not the #1 priority) – and, that this is true even among younger consumers. These findings beg the question, “are we shooting ourselves in the foot by doing away with one of the main things that consumers care about when selecting a bank?”

**Methodology:** During 2019 Market Street conducted a dozen different banking studies with over 4,800 respondents. In every study, convenient branch locations was either the most important or second most important consideration when choosing a new primary financial institution.

To understand why consumers care about so much about the physical branch – and to give you insights about what the future of the branch might hold – we conducted in-depth interviews with consumers in MA and CT in June, 2020. The majority of interviewees were Millennials and people who had opened a new bank account recently.

## How branches add value for today’s consumer

While consumers do much of their banking through digital tools, they like knowing they can get face-to-face assistance if needed. **Like a security blanket, the “convenient branch” comforts consumers by tangibly signaling that support is available and close by** in ways that call centers and virtual support cannot. This perspective might seem novel, but history shows that bank branches have always evolved to better meet consumers’ changing needs and concerns. For example, prior to the creation of federal deposit insurance, would-be depositors needed great assurance that their assets were secure; to deliver this assurance, bank buildings were constructed out of stone in traditional architectural styles to convey stability, integrity, and strength. Then, in the Post-War era, banks moved from flaunting strength and stability to creating environments conducive to the client-relationship approach to banking that was quickly becoming the norm. With their large reception areas, comfortable furniture, and bright spaces, the “sit-down bank” conveyed the message that consumers at that time wanted to hear: “sit back, relax, let’s talk.” Our research echoes these historical trends, showing that **convenient branches matter because they communicate a message that today’s consumer cares about. That message is, “we are right here and ready to help if you need it.”**

So, what does this mean for the future of the bank branch? One possibility is that branch numbers will continue to dwindle as banks increasingly deliver their services through call centers and digital tools. Yet, **our research shows that closing branches is risky because it underestimates one of the strongest motivators of human behavior, the need to feel secure. To banking consumers, this means knowing “the branch is there.”** We expect that physical branches are here to stay but will continue to evolve towards what consumers want most: responsive, friendly support; digital ease and accessibility; and long-term value in the form of good returns and no/low fees.

**What does “the branch of the future” look like? Insights from other industries may show the way.**

Making the pivot from consumer needs (“I want banking that’s easy”) to delivering substantive value (“my bank helps me do all this stuff and it’s a breeze”) to brand attachment and loyalty (“how did I ever live without this?!”) will require branches to evolve and reinvent. Knowing that a unique value of branches is their “security blanket” role, banks may lean into this idea by incorporating a dedicated help center that specializes in resolving problems and assisting with account set-up (builds trust and reduces barriers to switching). Perhaps the “branch of the future” will become better at showing customers how to get the most out of the bank’s features and

online tools while supporting lifelong financial literacy. One customer we spoke with had a vision of the “bank of the future” that is not all that different from transformations taking place in other industries: “I do like banks moving towards a friendly environment, casual, free coffee... towards the Apple store model.” Indeed, building brand confidence through accessible support, encouraging brand immersion, and creating a hub for learning could be how the branch, reinvented, keeps pace with consumers’ changing needs and ensures that the physical branch remains a valued resource.

## Additional research findings

### Finding #1: The desire for convenient branch locations is driven by the fear that quality support won’t be available another way.

Despite the rarity of in-branch banking and the decreased importance of personally connecting with bankers and tellers, consumers really care about convenient branches. The reason? *Branches are a safety net for support*. If consumers have a problem, they want to know that they CAN go to a branch and talk to a teller face-to-face who can solve their problem. As one customer said, “Branch convenience is important because they’re holding my money, it’s important to be able to reach someone in my time of need” [Female, 38]. Although most consumers will try to resolve their issues through calling, they want to it to be convenient to access support in-person, *just in case*. This is partly because they expect that some issues are easier or quicker to resolve in-person than through other methods. As one consumer said, ““Being physically close to the bank is important. It was so frustrating to call all the time because I want to be able to just go down there to talk to someone” [Male, 50]. Another reason that consumers valued *convenient* bank branches was because they dislike spending time traveling to the bank and may overestimate how often they need to visit the branch for “signing paperwork” or making large deposits or withdrawals.

### Finding #2: To banking consumers, “convenience” is about *digital ease*.

We asked consumers what it means to make banking “easier” and “more convenient”, and this is what they said:

#### 1. Intuitive, user-friendly digital tools:

*“My bank makes [mobile check deposit] easier, the options are there in the app right when you open it up. For my Mom, I have to search through to find mobile deposit...it’s hard to navigate. [Easier] means the app is easy to navigate, pictures, has all the things you can do as soon as you open it up.”*

#### 2. Universal accessibility through any device:

*“As many [online] tools as they can make user-friendly... They should make it available on all devices – iPhone, android, tablet. I want to do more through my phone, but my app doesn’t always work. I get annoyed, it gets frozen... then I have to open my computer, go online, sign in, there’s multiple steps when the app doesn’t work. I want to use my phone first. For quick things, it’s easier, I’m on my phone more often. If I go through the computer it’s more steps, I can’t do it from anywhere.”*

A suite of easy-to-use digital features, including a great mobile app, is a must – consumers say they “need to have everything accessible electronically” and look for what they deem “basic features” like online bill pay, mobile deposit, easy account transfers within same bank and to other banks. Essentially, **consumers want to access and manage their finances on all kinds of devices, especially mobile, via tools that don’t require a lot of steps or wayfinding to do everything they need to do.**

#### Recommendations for *digital strategy*:

- ✓ Platforms should be consistent and easy to use across a range of devices.

- ✓ Utilize intuitive menus and navigation.
- ✓ Reduce unnecessary hoops or complexities that undermine the ability to accomplish banking quickly without sacrificing account security.

**Finding #3: Bank selection is based on how well banks deliver value, and what customers value often changes over their life. However, among the younger generation, banking relationships are largely transactional: it's about functionality and returns.**

Although specific banking priorities vary from person to person, the consumers we spoke with were focused on how banks deliver value in the form of fees, interest rates, CD rates, ATM convenience, branch convenience, customer service, and overall ease of banking through digital tools. Throughout our banking research we often find that older consumers care more about the quality of customer service than younger people, and this study is no exception: “I’m 58, I like the idea of walking into a bank and everyone knows me... as I got older I understand the value of service, it wasn’t just about rates anymore” [Male, 58]. They want banks to “get to know me and my needs, what I want” (Male, 60). Younger consumers, on the other hand, have a more pragmatic approach – “I don’t want to pay you to keep my money there” [Male, 27].

We learned that some features can be important deal-closers and advocacy-boosters, even if those features aren’t necessarily the first things that come to mind when considering switching banks. For example, there were some interviewees who were especially enthusiastic about their bank, and what set them apart was that their banks had continued to generate value through things like consistently-great service; features that help grow their savings; or a really great app.

**Finding #4: Consumers care more about having a conveniently located, fee-free ATM than the overall size of the ATM network or paying an occasional fee to use out-of-network machines.**

ATM use varies, but the interviewees who prioritized ATMs in choosing a bank said that it was important to have ATMs that are *convenient to home, work, or frequently used travel routes*. While paying fees for using out-of-network ATMs is, not surprisingly, undesirable, it can usually be avoided – the most important thing was to have options for “primary” fee-free ATMs that are convenient to daily life. As one consumer said, “*It’s nice not to pay the same fee over and over at the same ATM, but a one off [fee] is not a big deal*” [Male, 26].

**Finding #5: “Great service” is not necessarily a personal relationship or even an in-person interaction; it’s responsive and competent customer support across all banking channels.**

Our research showed that consumers are conducting up to 90% of their banking through digital tools, with mobile being preferred. In fact, many consumers are “on the bank app every day” and *hardly ever set foot in a physical branch*. Moreover, consumers are becoming increasingly independent in their day-to-day banking activities: many seldom interact with bank staff through any channel except to resolve problems or perhaps to open a new account. Yet, **consumers want to know that they can reach bank staff for support and troubleshooting at any time if they need it – and they want a friendly, helpful attitude to boot.** Even consumers who used or are interested in online-only banks say that they not only expect responsive customer service, but that this is a deal breaker in whether they will consider or stick with the bank.

**Need help understanding your institution’s brand and your competitive marketplace?**

**Market Street Research can help.**