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# Reimagining the bank branch for the digital era

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Even in an increasingly digital arena, the branch network can play a critical role in building trust and credibility, providing financial advice, offering convenience, and easing the transition to digital channels.

**The retail-banking distribution model** has remained largely the same since the days of the Medici, and for good reason. Despite the clarion call to shrink the branch network over the past eight years in response to continued pressure on profitability and the growth of digital banking, branches have inherent advantages. They build brand presence in local markets that is difficult to match: at one US bank, we estimated the value of the physical network in just a single market to be equivalent to millions of dollars of annual marketing. Branches also provide physical comfort for customers, dispense cash and coin, and build trust in the bank to safeguard money and data.

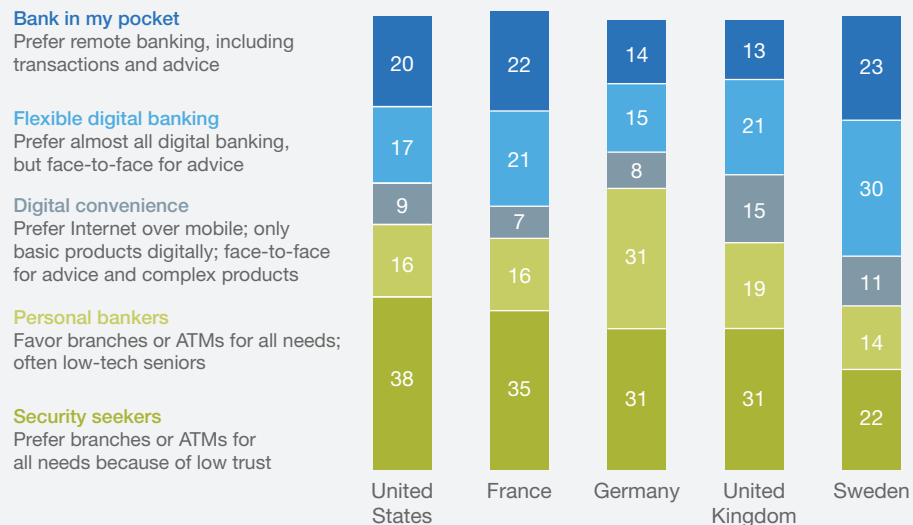
Yet branches are expensive, accounting for half of operating costs at some banks. In addition, providing a consistent customer experience across far-flung branch networks is challenging. The emphasis on cost-cutting following the global financial crisis has created a dilemma for banks: optimize branches to gain a competitive advantage with customers or lean more heavily on less-expensive digital channels and lose their distinctiveness compared with online institutions and other digital attackers.

Recent McKinsey research highlights the difficulty in catering to changing customer expectations (see sidebar “About the research”). While sizable segments of consumers around the world express a preference for branch-based interactions, a large portion of respondents are also open to digital banking channels. Indeed, 56 percent of customers would be willing to purchase banking products digitally, but just 13 percent say that they have done so. Still, the branch continues to be the dominant banking selling channel in the United States (Exhibit 1). Even in 2015, eight years after the iPhone debuted, only 8 percent of banking-product sales in the United States were fully digital, compared with 35 percent for more digitally mature markets.

## Exhibit 1

In the United States, a significant number of customers still prefer branches.

Client behaviors, % of respondents



McKinsey&Company | Source: McKinsey Consumer Insights Survey 2016

So while the rise of digital banking channels has offered customers a powerful complement to the physical locations, to date no bank has cracked the code on creating an omnichannel offering that capitalizes on the unique strengths of branches. Instead, charting the future of the bank branch has been a set of prosaic activities: closing low-performing locations, installing new ATMs and self-service stations, migrating transactions, upgrading selling capabilities, and piloting some new concepts (for instance, portable or light branches) in select locations. Before banking executives can redesign a branch network that can support an omnichannel banking ecosystem, they must address some significant issues. By understanding recent advances that point to the role branches could play in the future, banks can devise a sound strategy to derive the most value from their investments in physical locations.

## About the research

To explore how consumer preferences have evolved toward banks, McKinsey conducted an online survey of around 36,000 consumers in 11 European countries, Canada, South Africa, and the United States. The McKinsey Consumer Insights Survey includes

quantitative analysis on channel behavior, customer satisfaction with a current main bank (overall and by satisfaction driver), interest in innovative services, and willingness to switch to remote channels for advice and sales.

### Shortcomings of the branch model

The legacy of branch distribution in an increasingly digital world has created several challenges that banks have struggled to address.

*Cost.* At a typical bank, the physical network plus the associated people (such as tellers and bankers) and support (such as cash distribution) could represent anywhere from one-third to more than one-half of a retail bank's operating costs. Many banks are nearly finished with the branch-consolidation process, so they will hit a cost floor consisting of minimum teller staffing in a branch to abide by security and compliance requirements, long-term leases or owned square footage that they can't easily exit, and segments of customers and types of transactions that will simply not migrate to digital channels at current course and speed.

*The physical customer experience.* A large proportion of branches in North America are old, underoccupied, and poorly maintained. Newly renovated branches and entirely new locations with higher-end finishes have been tested, but most banks still struggle with maintaining a fleet of branches in tip-top shape.

The customer experience. Providing a high-quality customer experience in the branch takes both sustained focus and skilled leadership. Unlike call-center interactions, branches are difficult to manage at scale given limited automated tracking of customer engagement. Since branches handle the most complex interactions, it is quite difficult to deliver a distinctive customer experience in the physical network at scale and reliably over time.

Operating challenges. Managing capacity effectively in a network of small-scale branches is almost impossible without significant investment to avoid spikes in wait times or deep work in advanced and predictive analytics. Banks struggle to keep a branch with limited foot traffic open for extended hours to accommodate customers. In addition, the turnover rate, which has been rising in the last few years, makes it difficult for banks to maintain a consistent customer experience and requires constant training.

*An enabler for underperformance.* The branch has become a crutch that allows banks to force a customer to come in. It's no accident that of all the things you can get delivered to your doorstep the next day, or even the same day, cash isn't one of them. More important, branch-based sales have allowed banks to avoid building online and contact-center sales capabilities at meaningful scale, whether in lending or in deposits.

### How branches need to change

In an increasingly digital world, bank executives must rethink the branch and the services it offers. The physical network can still play a critical role in building trust and credibility, providing financial advisory services, offering convenience, and assisting in the transition to digital channels. Getting the operating model within the branch right will be critical to a bank's success with its customers. The ideal model is likely to include several features, many of which represent fundamental shifts from the traditional model.

*Fully automated cash and coin handling.* The operating costs of a bank branch drop off significantly when cash is not handled by people. Ideally, all cash and coin deposits and withdrawals will be migrated to ATMs and other machines. Banks have made great progress on small-dollar transactions to these channels, but there is more work to be done. Once cash is handled by machines, banks can achieve a step-change reduction in security costs, compliance costs, and staffing requirements. Banks will need to partner with ATM manufacturers to provide these capabilities at a scale and at ease of use that surpasses current machines.

*Noncash transactions and sales through digital capabilities.* In the near future, no transaction or sale should require a branch visit, but branches should be able to support them. Wire transfers, cashier's checks, loan applications, new card issuance, and signature cards should all be accessible through digital and physical channels. Customers can then decide whether they want to make a transaction digitally from home, in transit, or in a bank branch where someone can assist them.

To provide omnichannel service, banks must implement comprehensive multichannel sales-excellence programs. The ideal mix of channels across different banking products (retail and beyond) will vary by customer, so understanding the typical journeys requires forethought, better segmentation, and often new capabilities. Adopting this perspective also enables bank executives to prioritize investments in specific channels.

*Improved branch formats and design.* A branch's physical presence, from the location and size to décor, needs to be consistent with the bank's brand. High-end finishes are not a requirement. For example, a multitude of mass-market brands in hotels, retail, and restaurants forego frills but deliver consistent quality tailored to their target customers in their physical space. While banks should have been attending to this area all along, many have allowed it to become a lower priority, leading to an uneven customer experience.

*A digitally enabled customer ecosystem.* Most banks are organized around the branch network as the delivery system. In a customer's eyes, the branch is just one more way—along with online, mobile, call centers, and other means—to interact with the bank. Although multiple channels are often required to complete a single process, such as signing an application that started online, banks must provide a consistent customer experience across channels. Doing so will force them to move away from assigning customers to specific branches and instead focus on the broader ecosystem.

To get a sense of what this shift will mean, consider the safe deposit box. This service is not likely to change anytime soon or become a profit center for retail banks. But the idea of the safe deposit box is a fundamental strategic advantage for traditional banks over nonbank attackers. The idea that customers can trust their bank—and no one else—with their most valuable and cherished possessions is a valuable asset for banks. Innovative approaches such as virtual safe

deposit boxes that can store digital documents such as tax returns and medical records with bank-grade security or making estate planning an automatic part of the banking experience could build on this trust. In an integrated physical and digital offering, physical branches can reinforce a bank's unique value to the customer.

*On time and uptime.* Customers now expect to be able to bank around the clock, and branches must adapt to meet this expectation. A branch's level of uptime should be consistent with digital channels. Part of the solution could be on-demand access: imagine locker-based pickup and drop-off at the branch to enable customers to sign documents or receive a prearranged large amount of cash outside standard hours. Another option would be deliveries, including cash, through a "mobile branch," precertified Uber drivers, or a secure mail device. In the new world, bank uptime needs to be consistent with customer expectations, which is probably north of 99 percent. In large networks, where even 1 percent is meaningful in terms of absolute numbers, expectations for service levels might be even higher.

Fewer but more relevant roles in the branches. The role of the bank branch needs to shift from a primary focus on making sales to offering quality financial advice. Accordingly, branch managers must coach advisers to provide clear information and direction to help customers meet their financial goals. Most banks have some version of a standard sales script, and some even describe it as a "needs-based advice conversation." But few have a consistent approach or a data-driven analytical model to support lead generation and true needs-based conversations.

### **Transform, innovate, integrate**

As banks consider how to develop the branch of the future, they will need to focus on several critical areas. The imperative to reinvent the physical network (by number, presence, and format) will be enabled by technologies that can upgrade branches and create unique customer-engagement opportunities. At the same time, banks must consider how to integrate the branch experience into the broader omnichannel strategy and improve efficiency while creating more versatile roles to handle consultative selling. Above all, every element of this journey must keep the customer front and center. Together, these steps will deliver a radically different branch experience.

While there is no consensus on how banks will address these various areas, several successful approaches have begun to emerge globally.

*Transform.* Reduce the number of branches and focus on efficiency within the bank.

This strategy may be the most common approach in the industry. More than half of the top 100 US banks have reduced their footprint by more than 50 percent over the past five years. Of these, many have started to experiment with the shape of their network, testing different branch formats. In addition, players have invested in large-scale programs to migrate

## What banks can learn from retailers about e-commerce

For the past decade and a half, retailers have faced headwinds with the shift from brick and mortar to e-commerce and the disruption it has unleashed. The market's frequent M&A activity in recent years (recent examples include separate acquisitions involving footwear companies Aldo and Jimmy Choo) and the struggles of retail giants (for example, Sears) are just two indications of retail's continued upheaval, resulting in part from digital channels. The industry is still facing pressure from the following trends:

### **Growing price consciousness.**

According to the McKinsey Consumer Sentiment Survey, 75 percent of respondents say they will shop at value channels more often, and 60 percent will wait for sales or discounts before buying.

### **Tech-enabled shopping.**

US consumers are only growing more comfortable shopping from their smartphones. According to one study, time spent on the top five digital shopping apps grew 44 percent in the first half of 2017 compared with a year earlier.

**Digital retailers.** At the end of 2016, Amazon's market value was larger than that of the combined value of the major US brick-and-mortar retailers. The company's success is based on a broad array of factors, including product variety, pricing, free shipping, and even a preference for the mobile

experience. This performance does not come cheap. In 2016, Amazon spent 11.8 percent of its net sales—more than \$16.0 billion—on technology and content.

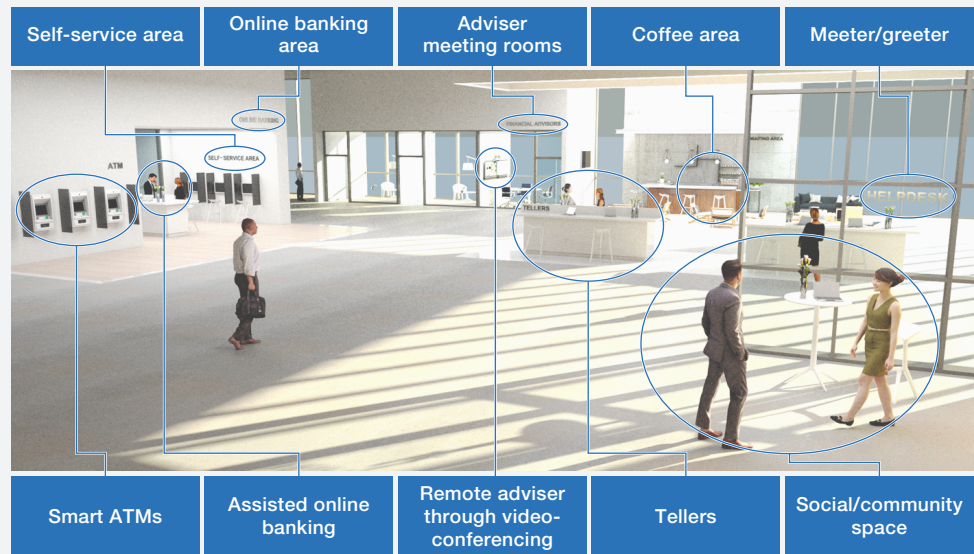
So how are retailers responding to these changing circumstances to maintain the relevance of brick-and-mortar locations for customers? In short, with a full-scale reimagining of physical stores.

- technology integrated into stores to provide a unique customer experience (Amazon Go)
- experiments with different formats of physical stores (for example, Starbucks's Roastery locations versus their standard locations)
- shift in people roles from transactional to consultative selling (for example, Apple's Genius Bars)
- stores designed as an integral part of the broader omnichannel strategy (for instance, Sephora)
- design elements that enhance the customer experience (Ford's Manhattan FordHub and the Sonos flagship store are examples)

Banks can take inspiration from these examples and consider integrating some of the approaches into their vision for the design and function of their branches.

## Exhibit 2

Innovative branches will offer a range of face-to-face and digital options.



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customers to digital channels while reconfiguring staff to adapt to the different format and mix of transaction types.


**Innovate.** Invest in a few cutting-edge approaches to modernize and transform the branch experience.

From ATB Financial's use of Softbank Robotics's robot, Pepper, as a greeter to the touch table at Citibank and the State Bank of India, banks are beginning to bring innovation into the branch. For example, the transformation of the classic ATM to a video-enabled lending distribution machine is under way. Almost every bank is experimenting with technology in order to transform its physical footprint and customer experience.

**Integrate.** Create a true integrated omnichannel experience, where data are shared and transactions can be processed the same way across channels.

Truly integrated digital journeys may be the future of bank distribution. Italy's CheBanca, for example, started as a digital bank but then established a network of around 50 branches, largely in high-traffic areas. These locations offer a "retail-like experience" in a cozy environment where clients can use either a digital or web terminal or sit side by side with one of the few branch employees (Exhibit 2). They train employees in this multichannel environment by rotating them across channels (for example, from branch to call center). BBVA and ING have also invested in a similar concept by focusing on direct origination and using technology in branches to create a true omnichannel experience. Citibank is investing in an "Apple-like" concept with its "smart branch" design.



The rise of digital banking is not a death knell for the bank branch, but it is rapidly making the current branch model obsolete. And if the broader US economic environment does not improve, banks may need to make more aggressive moves with respect to branch closures. However, forward-thinking banking leaders will go beyond branch closures and devise a role for branches that builds on the strengths to support other channels—and also unlocks new sources of value. 

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