A Quarterly Journal

BANCOLOGY

AUGUST 2018 VOLUME 67

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Still Waiting: Despite Rise in Electronic Transactions, Leading Banks Maintain Constant Branch Coverage Levels

Data shows U.S. banks maintained the same geographic coverage levels of large markets in 2018 as they offered in 2017.

The previous issue of *Bancology* discussed how the banking industry has undergone significant contractions in both institution and branch counts in recent years, with the U.S. overall shedding 9,000 branches from the peak levels of 2009. Several factors fueled that decline, including financial exigencies, merger-driven overlaps, and the sharp increase in electronic channels reducing in-branch activity levels.

A scan of articles in *American Banker* or other trade publications might lead readers to attribute the bulk of closures to that lattermost factor, with a surfeit of articles deeming various electronic transaction vehicles as replacements for the branch channel. However, empirical evidence argues otherwise, with data showing U.S. banks maintain the same geographic coverage levels of large markets in 2018 as they offered in 2017, implying the overwhelming majority of closures addressed branches with immediately overlapping trade areas.

In 2014, Bancography studied the extent to which branch closures were actually compromising customer convenience in the article *"Same As It Ever Was: Major Market Branch Coverage Remains Unchanged, Even After Recent Wave of Closures"* [April 2014]. The article summarized a study that measured the proportion of households in the 10-largest U.S. metros who lived within one, two, or three miles of a branch of leading institutions, with that peer group defined as the 13 banks operating 1,000 or more branches. The study found few cases where banks significantly reduced branch availability, when measuring availability in terms of the proportion of households in a market who live within a given range of one of that institution's branches; implying that any reductions in branch counts in those markets instead addressed geographic overlaps, i.e., branches in close proximity to one another serving substantially the same trade areas.

The 2014 study compared market coverage based on changes from the 2010 to 2013 branch reporting years. In the four years since, total FDIC-reported branch counts declined by another 4,500 units, while adaptation of online bill pay, mobile banking, remote capture, and other non-branch channels continued to grow; thus, giving reason to revisit the study to ask whether the industry is finally seeing leading banks change course, presuming electronic channels will allow consumers to tolerate greater travel times to their branches.

The underlying hypothesis of the study is as follows: if banks believe consumers are placing less value on branch convenience, then the bank should be willing to risk contracting branches to the point where its branch spacing increases significantly. That is, where the resulting network would show greater distance between branches, and (continued on page 3)

2 Mile Household Coverage During:

MSA	Bank of America 2017	Bank of America 2013	Bank of America 2010	Wells Fargo 2017	Wells Fargo 2013	Wells Fargo 2010	Chase 2017	Chase 2013	Chase 2010
Atlanta	53%	54%	56%	61%	61%	60%	40%	40%	33%
Boston	74%	75%	75%	6%	0%	0%	5%	5%	5%
Chicago	62%	63%	63%	9%	9%	8%	82%	84%	84%
Dallas	63%	64%	66%	65%	66%	69%	74%	75%	74%
Houston	59%	57%	57%	65%	65%	66%	68%	70%	69%
Los Angeles	95%	95%	95%	93%	93%	92%	94%	94%	90%
Miami	92%	92%	92%	90%	89%	90%	89%	89%	84%
New York	83%	83%	83%	48%	48%	48%	88%	88%	87%
Philadelphia	51%	54%	55%	77%	78%	78%	5%	5%	5%
Washington	73%	73%	72%	69%	69%	68%	4%	4%	4%

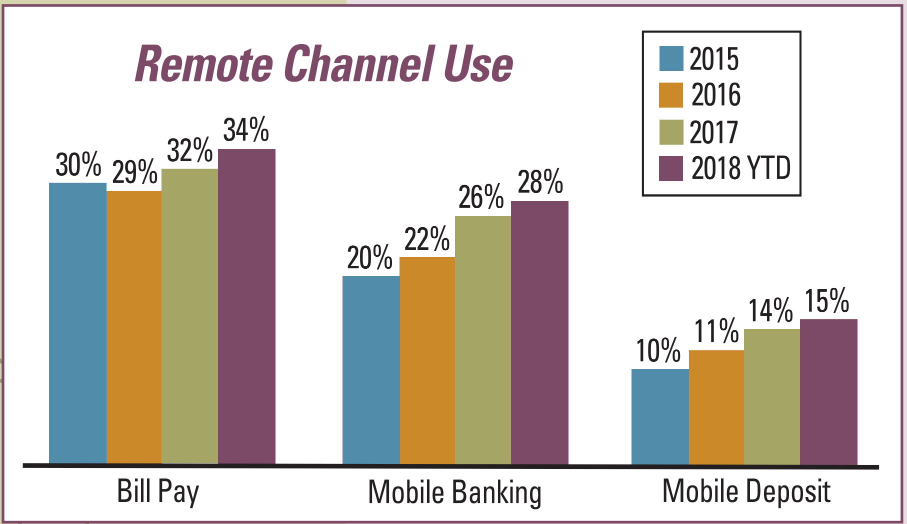
% Atlanta MSA Households Within "X" Miles of a Branch of:

	2010			2017			Change		
	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles
Bank of America	22%	56%	72%	21%	53%	71%	-1%	-2%	0%
BB&T	12%	35%	57%	11%	35%	58%	0%	0%	-1%
Chase	10%	33%	53%	13%	40%	59%	3%	7%	8%
Fifth Third	3%	11%	20%	6%	19%	32%	2%	7%	11%
PNC	10%	29%	49%	10%	29%	51%	-1%	-1%	-1%
Regions	9%	27%	48%	9%	27%	46%	0%	0%	0%
SunTrust	23%	57%	74%	21%	52%	70%	0%	0%	0%
US Bank	1%	2%	3%	1%	2%	3%	0%	0%	0%
Wells Fargo	25%	60%	76%	24%	61%	78%	0%	1%	1%

The Importance of Servicing Remote Channels

For its Customer/ Member Service, Satisfaction & Loyalty research tracking program, Bancography conducted approximately 50,000 telephone interviews of consumer customers annually over the past four years. Data from those interviews yielded valuable findings regarding remote channels.

Bancography asked respondents whether they utilized Bill Pay, Mobile Banking, or Mobile Deposit in the past three months. As expected, given industry investments in those channels, the study showed steady increases in usage across the past four years. Consumers increasingly opted to transact remotely, complementing financial institutions' desire to free branches from mundane transactions. Still, note even the most frequently used of these channels, online bill payment, is used by only one-third of all respondents.



Although few consumers select an institution purely based on digital offerings, poor platforms can fuel dissatisfaction that diminishes loyalty and retention. In the research script, if a customer expresses dissatisfaction with a remote channel, they are asked why. *Slow, not user friendly, login issues, navigational confusion, password resets too often, too much security* and *site crashing* are the most common responses. Despite help menus and chat screens, customers often contact the call center for assistance with remote channels, and the motives for the calls have forced representatives to become more technologically savvy.

Agents' roles have expanded from problem-solving bankers to troubleshooting issues of the website, mobile applications, camera on the phone, and other questions better suited for the Geek Squad. Customer complaints are expressing more frustration with agents' inability to remedy problems related to the remote platforms, even if those issues seep beyond the bank's tools and into the underlying operation of the consumers' devices. Frequent respondent comments now include *uninformed, not knowledgeable, not getting to the right person, lack of 24/7 accessibility,* underscoring the importance of a specialized pool of tech-savvy support agents. Most consumers will forgive a single problem or error; however, they may not excuse an institution's inability to resolve their issue, even if the root cause lies beyond the institution's actual product.

Consumers desire banking alternatives and remote-channel use will continue to increase. Problems are inevitable as technology evolves; but call-center training must evolve correspondingly so those problems do not progress to customer attrition.

Who Owns This Account: Branch Accounting in

In the days when the branch was the only channel for account opening, branch accounting and profitability measurement were simpler. New accounts were booked at the branch where the consumer established the relationship; and typically re-domiciled at another branch only based on specific consumer behaviors, generally involving the establishment of subsequent accounts or the performance of a preponderance of transactions at a separate branch. Regardless, even if a bank reassigned accounts to different branches, the account never left the branch system, and the sum of deposits across all branches equaled the total deposits of the institutions (loans were often treated differently, with indirect, mortgage and commercial loans domiciled in non-branch cost centers at many institutions; for deposits, only the occasional private-banking deposits could escape the branch orbit).

Today, consumers enjoy additional channels in which to open new accounts, primarily the call center and online, raising the question of how to most appropriately allocate balances from remote-channel accounts. At first, the thought may be to treat those accounts similar to indirect or commercial loans, establishing the call center and the online channels as separate, independent channels. However, those loan products require minimal servicing once established, and thus will not place any significant cost burden on branches for servicing.

In contrast, deposit accounts carry the potential to impose material servicing costs upon branches. Keep in mind, even when a consumer establishes an account through the call center or online channels, there are

Still Waiting: *Leading Banks Maintain Constant Branch Coverage Levels* (continued from page 1)

where the average distance between consumers and their nearest branch would increase. However, as the tables on page one illustrate, the study found little evidence of such behavior.

First, consider the operators of the three largest branch networks in the nation: Wells Fargo with 6,100 branches nationwide as of June 2017, Chase with 5,300, and Bank of America with 4,600 (1,500 more than next-ranking US Bank). Bank of America has shed 1,000 branches nationwide since 2010 and 500 since 2013; Wells Fargo has shed 400 branches since 2010 and 200 since 2013; and Chase has shed 400 branches since 2013, but carries roughly the same number of branches today as in 2010. Yet despite those significant contractions, these leading banks' coverage of the largest metropolitan areas in the U.S. remained largely unchanged.

For example, in the Dallas market, highlighted on page one in orange, Chase closed a net 24 branches from 2013 to 2017, representing a 9% reduction in its network from the 259 branches it offered across the metro in 2013. Yet its two-mile coverage barely declined: in 2013, 75% of all households in the Dallas metro lived within two miles of a Chase branch; today, even after a net contraction of 24 branches, 74% of households in the market still can find a Chase branch within two miles of their home. Similarly, in that same timeframe, Wells Fargo and Bank of America contracted 15 and 12 branches, respectively, but in each case those actions led to only a one percentage point reduction in the proportion of households living within two miles of one of their branches (see purple-highlighted cells). The pattern largely holds true in the other large markets, with Bank of America's modest coverage reduction in Philadelphia offering one of the few counterexamples.

The same trends persist in the tier beyond the absolute largest banks. Taking a deeper look at the top-10-metro Atlanta as an example, the study finds that whether convenience is defined as one, two, or three-mile proximity (i.e., what proportion of market households live within that distance of one of the bank's branches), few banks are contracting market coverage. Rather, of the nine banks in the large-network peer group that maintain a presence in the Atlanta metro, two markedly expanded their coverage of the market since 2010 (Chase and Fifth Third), seven maintained constant coverage levels, and only Bank of America reduced coverage, by a marginal one percentage point at the one-mile level and by two percentage points at the two-mile level. Notably, six of those nine institutions maintained their coverage levels even while contracting branches in the market: SunTrust shed 24 branches in Atlanta from 2010 to 2017, while Bank of America (-21), PNC (-11), Wells Fargo (-10), and BB&T (-8) also effected significant branch reductions.

So how do large number of branch closures across the industry reconcile with limited coverage changes in the nation's largest markets? A few hypotheses:

1. At a time when America continues to grow increasingly urbanized, banks are closing rural and small-market branches to allow consolidation of resources in larger urban markets.

2. To the extent that banks pursue closures in urban markets, they are considering those from a most risk-averse posture, consolidating only those branches that will still leave surrounding consumers with other nearby banking options.

3. Given that closures are affecting mostly closely clustered overlapping branches, banks have likely exhausted the stock of such easy targets, suggesting that either the pace of closures will slow, or that banks will need to gamble on consumer willingness to tolerate greater travel times to their branches to find additional network cost savings.

That final hypotheses suggests a seminal moment for the industry approaching: as the breadth and capabilities of electronic channels continue to grow, will consumers tolerate greater travel times to their branches, and allow banks to close branches without punishing them by moving accounts to geographically closer providers; and as the cost of electronic channels continues to consume a greater share of noninterest expenses, can banks afford not to reduce branch networks in response? As is often the case in banking, the safest response may be that which minimizes risk, which is to maintain branch coverage but reduce the cost of branch operations. That can occur only through lower-cost operating models — a combination of changes in branch design, technology, processes and staffing levels — the motive force behind how transformation and reconfiguration have emerged as preeminent buzzwords in today's retail-banking environment.

a Multi-Channel World

rarely requirements precluding branch use for subsequent transaction needs.[1] Thus, the separate-channel approach that banks and credit unions can use for indirect loans with few adverse consequences could occlude true branch profitability levels if applied to deposit products, in that branches would carry the cost burden of servicing customers of all channels without deriving the revenue benefit of housing those balances. This raises the key question of how financial institutions should domicile accounts that originate in remote channels, and in addressing that question, several options merit consideration.

[1] *Some institutions offer electronic-only accounts that impose fees for any branch transaction activity.*

1. The simplest method is to create separate cost centers for each remote channel and credit those channels with the balances from the accounts that they open. However, as noted above, this imposes servicing costs upon the branch network without giving the institution's branches credit for the balances they are servicing. Further, this method fails to realize the branch network may have created the initial awareness of the institution, serving as the primary prompt for the call or web transaction.

2. Alternately, the institution might allocate a remotely opened account to the branch nearest to the customer's residence, or, if the customer already maintains another account at the institution, at the branch housing that relationship. This method recognizes the role the physical network plays in creating awareness, and also the servicing burden branches may incur. However, it brings the drawback that some accounts will transact entirely remotely, effectively rewarding the branch despite no relevant action by the branch; and similarly disrupting sales-incentive systems that measure growth in the branch's new-account volumes or balance levels. Further, the transition of the call center to a profit-and-loss center with balance-sheet accountability should encourage sales in that channel, but this branch-allocated model would negate such incentives.

3. To resolve the above issues, some institutions have added "shadow-accounting" systems, wherein all accounts are (continued on page 4)

NEWS

Bancography will exhibit at the **American Bankers Association Marketing Conference** September 23 - 25 in Baltimore. Please visit us at Booth 407.

booked to a branch but a parallel series of reports tracks the same balances as if they were booked to their originating business line. In this way, the systems recognize the servicing burden that branches carry and the role of the branch network in spurring new-account sales; but also allows incentive systems to recognize call-center and online-channel managers with true profit-and-loss tracking.

4. Finally, a more complex approach can domicile new accounts at the originating business line so the call center and online channels maintain true profit-and-loss accountability; but also charge that channel for transactions processed on behalf of remote-booked customers. In this activity-based pricing model, a branch receives a credit (and the owning business line a cost assessment) any time the branch processes a transaction for a remote-booked account. The adjustment can either reflect a fixed per-transaction cost or some proportion of the account's total revenue. Either way, this recognizes the costs the branch incurs with a corresponding revenue benefit, while also allowing the remote channel to reap some benefits from its new account recruitment. As noted above, each method holds benefits and drawbacks, and the ultimate decision of how to book remote-originated balances may also be constrained by the limitations of current reporting systems. Still, the issue merits consideration, as failure to properly quantify the branch channel's role in driving and supporting remote-channel opens could prompt improper branch-channel-management decisions.

THE ART OF POSITIONING
bancography
BRANCH | PRODUCT | RESEARCH | BRAND

1827 First Ave. N., Suite 200
Birmingham, AL 35203
205.251.3227

Return service requested

Presort Standard
U.S. Postage
PAID
Birmingham, AL
Permit No. 148

THE ART OF POSITIONING
bancography
BRANCH | PRODUCT | RESEARCH | BRAND

Welcome to Bancology, a Quarterly Journal from Bancography