[Reviewing branch strategies in a post-pandemic world]

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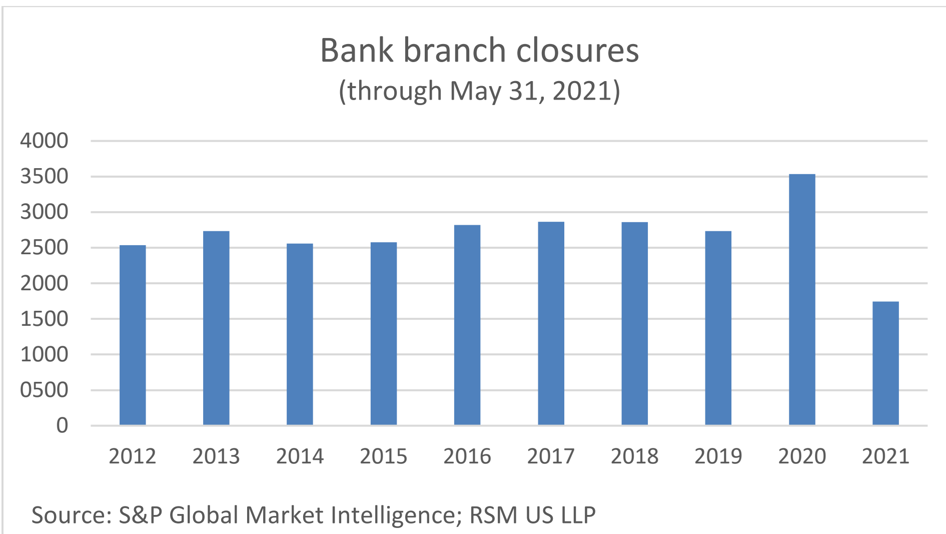
As bankers have sought to address barriers to growth and increasing operational costs in recent years, many have historically turned to eliminating branch locations as a way to manage the bottom line, whether through a merger or acquisition or otherwise.

Then, a global health pandemic hit.

To be sure, banks were shuttering branches at a significant pace prior to the pandemic. But data from S&P Global Market Intelligence indicates the pandemic likely created an acceleration in branch consolidations and closures.

Between 2012 and 2019, banks eliminated approximately 2,700 branches a year. In 2020, as the global health pandemic set in, banks shuttered more than 3,500 branches. And if the pace of branch closures—more than 1,700 so far in this calendar year through May—continues to hold, 2021 could see more closures than 2020.



With the onset of the pandemic, banking operations went almost entirely remote overnight. Now with branches around the country beginning to gradually reopen, the only meaningful number of "regulars" returning to the branch are the employees. Consumers and borrowers have continued to stay home.

And since the beginning of the pandemic, countless organizations and groups have surveyed bank customers to not only gauge when or if they will return but what type of banking activities they might return for.

One such survey, performed by S&P Global Market Intelligence in February and March 2021, indicated that of the more than 3,800 people surveyed, 52% of respondents were visiting branches less frequently than before the pandemic.

The survey also noted that only 36% of respondents had visited a bank branch in the last 30 days, compared to 100% of respondents indicating they logged into their bank's mobile app in that same 30-day period. The trend in mobile usage during the pandemic is likely to stick, as 88% of respondents indicated they were using their mobile app more frequently and would likely continue to do so or increase their usage once the pandemic is over.

Still, to say cost management as a result of the pandemic is the sole, or even major, reason more branches were eliminated in 2020 compared to prior years would be inaccurate. More and more, a significant contributor to branch consolidations and closures is the increasing acceptance by bank consumers and borrowers of digital channels, such as mobile and internet banking.

The evolving digital journey

As customers and borrowers look to continue using digital banking channels, the ability to reduce branch count while simultaneously increasing engagement creates a real and profitable opportunity for banks.

As banks look to the next normal, here are three important questions for leadership teams to ask when considering a branch reduction strategy:

> **What is the data telling us?** Analyzing branch foot traffic and the type of transactions being conducted in those branches is incredibly important. So is analyzing the vast amount of data available about how—and how frequently—customers are using digital channels. Further, gathering input through surveys, or even through conversations with customers in the branch, can help inform which services can be provided digitally versus which benefit from in-person interaction.
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> **Do we have the right technology in place?** Driving growth through new-customer acquisition even while closing branches will require an extensive review of the digital banking technologies customers use, as well as the technologies used by frontline workers and back-office support in the performance of their jobs. Closing a branch can drive growth while concurrently reducing expenses only if the appropriate technologies are in place to optimize or improve existing processes, and if paired with capable digital banking channels.
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> **If we need the branch, does it need to be full service?** If reducing branch count is not a viable means for a given company to allow for growth while reducing costs, senior leadership should determine whether the business needs to offer every service at every branch. A branch may be able to "shrink" without disappearing altogether.

Branch strategy in action

As consumer preferences have shifted and the use of digital technologies has grown across all industries, the ripple effects continue. Huntington National Bank and People's United Bank both announced in early 2021 that they would be closing more than 330 combined branches in grocery stores across their banking footprint. In Q4 earnings calls held in January, executives at both Huntington and People's cited declining traffic in these branches along with increasing adoption of digital banking solutions as key reasons why the branches no longer made financial sense.

This shift in strategy fits with customer behavior. Bank of America reported that of its 66 million customers, more than 52 million have signed up for mobile or online banking, with roughly 40 million reportedly using these digital banking services frequently, according to a June article in *American Banker*. This increase in digital adoption has led to roughly 40% of all deposits customers make with Bank of America being done through the bank's mobile channel.

But just because digital channels are seeing increased use doesn't mean the branch will become obsolete. There are opportunities to deliver a positive client experience by shifting branch services or interactions. For example, while both U.S. Bank and PNC Bank have reported branch closure plans in 2021, they have also rolled out their new branches of the future—which put less emphasis on a transaction (such as making a deposit) and more focus on a solution (how to utilize digital technologies for banking or planning for retirement). Such pivots create new uses for branches by providing a more tailored customer experience.

The takeaway

With net interest margins remaining compressed, bank consolidation restarting after a pause, and digital channels continuing to see broad acceptance, leadership teams will look to branches even more so than before for cost control measures as the economy picks up steam. But simply looking at branch consolidation or closures as a means to improve the bottom line without considering the impact on other areas of the bank and its potential growth could have unintended negative consequences.

Through analysis of branch activity and other branch-related data, as well as the use or implementation of the appropriate technologies, shrinking the size of a branch or even reducing branch count may make sense. But the decision cannot be made in a vacuum, and executives need to consider a broader scope of factors, not just those centered on expense management.

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