Is the bank branch dead?

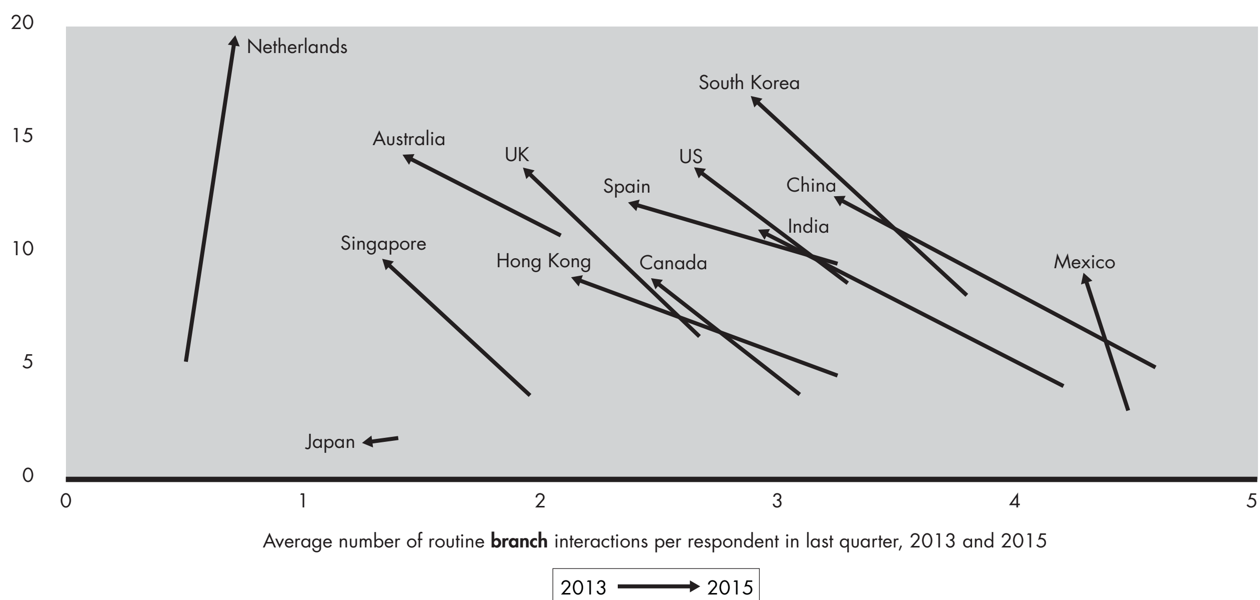
No, the branch has not died. But with customers deserting branches in favor of mobile and online channels for many interactions, the size and nature of the branch network has to change faster and more substantially than most banks acknowledge. Banks will be pressed to redesign networks to make them smaller, less costly and oriented toward high-value sales and advice.

Consider the evidence for radical transformation. For one thing, the network has oversaturated the population. In the US, Bain & Company estimates that 80% of customers live or work within 3 miles of a branch, up from about 75% fifteen years ago. US branches cluster together more densely than their European counterparts, yet US banks do not achieve meaningfully higher convenience scores. And customers use traditional-format branches less every year. As currently configured, the typical US branch requires at least 5,000 teller transactions per month to justify the cost of the operation, and we estimate that for a typical US regional bank, one-third of US branches fall below this level.

Some smaller, alternative formats have already proven to be profitable by focusing on sales and advice while encouraging customers to use digital channels for their routine transactions. Nordea's branch network in Europe's Nordic countries, for instance, has evolved from being predominantly full-service to focusing on advisory or daily cash and service. Along the way, Nordea's retail cost-to-income ratio has improved from above 60% to 56%. ABN AMRO, based in the Netherlands, reduced its branch footprint by 46% between 2009 and 2013, while also increasing the share of limited-service branches.

Granted, closing and reformatting branches usually requires a one-time capital investment. But these activities deliver considerable productivity gains: Every 100 closures in North America, for instance, might free up $40 million to $60 million in annual operating expenses. Moreover, banks that reduce their footprint

Figure 1: Mobilizing routine interactions allows banks to reduce routine branch visits



Sources: Bain/Research Now NPS surveys, 2013 and 2015; Bain/GMI NPS surveys, 2013

and transform remaining branches can increase their revenues. That's because they've shifted many interactions from branch to digital channels (see Figure 1), which are less expensive to operate and, when built right, delight customers.

The experiences to date of retail banks that have excelled in branch transformation suggest a few principles essential to a successful transition.

Take on three activities in parallel. Banks must reduce bad interactions (due to errors or rework) in the branch and shift avoidable interactions to digital channels. For most banks, 60% to 70% of teller transactions are either bad or avoidable and can be migrated to digital channels with changes to customer behavior or with a few changes to policy and process.

In parallel, they can test, redefine and implement their new branch model by progressively closing or remodeling locations and by realigning staff to match new skills with the newly emphasized sales and advice roles.

They also should progressively digitalize customer experiences to emphasize convenience and speed.

Build the business case with eyes open. The base case should not resemble the current situation, but rather should factor in the customer defection and reduced cross-selling that will occur as competitors expand digital offerings. Also, banks should calculate the upside using overall profit lift through revenue growth, an improved customer experience and reduced operating cost, rather than calculating in cost terms only.

It's critical to emphasize self-funding: Savings generated through reductions in volume and physical footprint can be reinvested to expand digital transactions. This will require the early commitment of the entire leadership team, as the nature of the work cuts across most functions of the business.

Execute a customer-centric plan at the micro-market level. For each micro-market, consisting of 10 to 20 branches, the plan should address the specific priorities and engagement methods for the local customer base, and customer feedback should inform service improvements. The plan should model the expected shift in channel interactions and the attendant reduction in physical volumes, which in turn can inform the number and type of assets, such as staff and ATMs, required in the future.

Banks carry a major liability in the forms of the fixed cost of existing branches that will have to close, plus the investment cost required to reformat and retool the network. Delays in branch transformation will likely force that liability into banks' stock prices. Faster-moving banks will stand a better chance of reaping the benefits of convenient digital channels combined with smarter branch networks.

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