MOORE

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UNDERSTANDING THE FUTURE OF BANK BRANCH STRATEGY

Cases from US, UK, and India

Three years ago, amid the recovery from the Covid-19, we [studied key paradoxes in driving value from UK bank branch networks](#) to support them arrive at the optimal strategy for individual firms. This seemed especially important as the dominant approach for many banks has been to close branches to maximise operational efficiency and profit.

In the past decade, many industries have accelerated digitalisation for example, retail (buy online/pickup in store), healthcare (online appointment check-in & access results digitally), and automobile buying (online research, followed by in-person test drives at dealerships). Financial services are no exception to this trend as they cater for the rising 'phygital' consumer who seeks engagement through both digital and physical channels.

As the number of bank branches continues to decline globally and customers demand agile services, banks will have to discover the best way of arriving at their own unique models of phygital distribution. To bring this challenge to life, we compare and discuss the impact of six key factors influencing the value derived from branch networks across 3 geographies – the local financial systems in which banking firms operate, access to cash, product complexity, access to funding, new customer acquisition and branch purpose.

Country/ Key Factors	US	UK	India
The local financial systems in which banking firms operate	Since the 2008 financial crisis, the FS sector has seen increased consolidation and branch closures which gave rise to new "banking deserts", where low and moderate-income neighborhoods lack access to bank branches within a 10-mile radius. The latest statistics show that the US has at least 1,100 banking deserts, with an additional 1,000 communities at risk of losing their last bank branch. • Over the last two decades, the number of community banks declined by nearly half due to mergers and acquisitions, bank failures, and higher regulatory costs. According to the Federal Reserve Bank of New York, the market share held by the largest five banks declined from 50% in 2010 to 46% in 2020. • Overall, more than 1500 traditional bank branches closed in 2023, whilst the number of federally insured credit union branches increased by over 50. An exception to this is where big banks are seeking to build pan-state scale. • Between 2018-2023, JP Morgan opened more than 650 new branches and entered 25 states as they recognised the value that "people want to talk to people."	Between 2012-2022, the number of bank branches in UK has fallen by 44% while the number of building society branches fell by 12%. The banking network in rural areas has been cut by half (50.7%), compared with 47.3% in urban areas. Nationwide Building Society is among relatively few firms which pledged to remain all their existing branches in next 4 years. • In response to the accelerating branch closures, the government and the high street banks are working together to provide alternative banking and cash services through "Banking Hubs" which house multiple bank brands under one roof for both business and personal current accounts. • However, Banking Hubs only serve 31 communities at present. Political pressure mounted when Barclays, Lloyds, NatWest, and Santander were summoned to appear before the Treasury Committee to report on their branch closures. CEOs also faced tough questions on how they are supporting customers with high mortgage rates and low interest on savings accounts, given reported high profits.	The banking industry's financial status following COVID-19 is inequitable, with both recovery and on-going challenges. One of the most striking changes during and after the pandemic has been the pace of digital transformations. Overall, while the banking industry has weathered the immediate effects of COVID-19 relatively well, it now faces a landscape marked by digital transformation, increased competition from fintech, ongoing regulatory changes, and the need for strategic consolidation to improve resilience and profitability. The banking business faces structural issues, such as regulatory changes and the need to transition to a more digital and sustainable economy. Regulatory monitoring has risen, particularly in relation to non-traditional financial institutions and emerging technological threats. Furthermore, the transition to a greener economy brings both obstacles and opportunities. • Private banks have stepped up to compete with public ones via enhanced digital capabilities and aggressive branch opening. With government-owned banks reducing branches to 2,044,

			private banks have increased by 4,023 to reach 34,342 branches in 2022. For example, HDFC Bank, opened 684 branches in 2023 and plan to open 1500 more in 2024.
Access to cash	• 67% of US respondents in a February 2024 survey conducted by YouGov, a market research company, favour cash over digital payments for in-store purchases. In fact, US is one of the countries with most ATMs today (over 400,000) according to data tracked by research firm Euromonitor International. • Apart from Chase, Wells Fargo, Bank of America and CitiBank, more than 50% of ATMs are owned by nonbank and credit union operators. • Bank regulations varying from state to state and ATM fees also vary, unless customers use an ATM from the same bank that issued their cards. Fees are significantly higher when customers use ATMs from alternative banks to their own. • Independent ATMs now act as a "lifeline" for those in underserved areas. However, ATM operators struggle to secure agreements with banks to hold funds for cash stocking due to banks perceiving them as high risk with regard to fraud and money laundering, partly based on regulatory guidance.	• UK Finance have predicted that by 2028, notes and coins would account for just 9% of all payments. However, that could still leave around 2 million adults lack access to cash. • The consumer group Which estimated that people living in rural areas have much less access with just 0.1 bank branches per 10sq km and 1.1 ATMs, compared with 2.6 branches per 10sq km in urban areas and 31.3 ATMs. • In 2023, The Financial Services and Markets Act granted the FCA powers to ensure that customers have reasonable access to free cash. This, together with the industry effort to identify new locations for opening an addition of 70 Banking Hubs will mitigate the disparity of cash access in between rural and urban centres.	• Within 10 years of the launch of India's Pradhan Mantri Jan Dhan Yojana, a government program to build financial inclusion, enabled more than 500 million people to gain access to universal basic accounts. India's bank account ownership rose from 44% to 80% by the end of 2023. • Cashless payments are unrestricted and are increasingly prevalent in smaller towns and rural areas. The push for digital payments has been a key part of the government's financial inclusion strategy, especially following the demonetisation in 2016 and initiatives such as the Pradhan Mantri Jan Yojana (PMJDY). • Even fintech companies focus on offering better cash-less services. Paymart India, a payment processing platform, recently partnered with a few Indian banks to offer virtual ATM services. Customers will only need to use their mobile banking app to initiate a withdrawal request and use a one-time-password to collect cash from the nearest shopkeeper enrolled with Paymart.
Product complexity	• In a study conducted by Gallup, a US analytics and advisory company, in 2021, 3,898 US consumers were surveyed on their satisfaction with the support provided by banks to enhance their financial well-being. Over half of the customers said that their banks either have no positive impact or have a negative effect on their financial health.	• Increased regulatory scrutiny post financial crisis persuaded many banks to withdraw from offering financial advice. This has moved the market for advice to brokers and IFAs. • This, coupled with the reduction in branch networks has left customers with reduced avenues to seek financial and economic guidance.	• Banks have a history of being reluctant to offer credit to farmers due to their low and unstable income, high default rates, collateral issues and frequent changes in agricultural policies. Despite the government encouraging agricultural lending by launching various schemes, such as the PMJDY and Kisan Credit Card (KCC) schemes, the actual disbursement of loans to the agricultural sector remains limited compared to other sectors. • Recent statistics from Rabo Foundation showed that only 30% of all farmers borrow from formal sources while 50% struggle to borrow from any source. In a study surveyed 42 banks and 185 farmers, 67% of female farmer face even more severe barriers to access to finance and advisory. • Other complex industries that face hurdles in securing formal funding include the Micro, Small and Medium Enterprises (MSME) sector and start-ups. These industries often struggle due to high collateral requirements, limited access to formal credit, and a lack of tailored financial products.
Access to funding	• According to Goldman Sachs, small- and medium-sized banks account for around half of commercial and industrial lending in the U.S. In terms of residential real estate, they provide 60% of home loans. However, they now grapple with increased competition and managing their profitability.	• A branch presence is traditionally associated with solidity and reliability, also serving as public advertising for Big 5 banks. • UK customers with larger deposits place less trust on digital banks due to perceived access limitations, despite the FSCS insuring £85,000 per person per authorised firm.	• PSU banks have been around longer and have digitalised quality services offer. Top 10 banks (of which 7 are government banks) hold 75% of total deposits. Small finance banks and payment banks hold less than 1% of deposits. • PSU banks tend to be favoured for a variety of reasons. Firstly, they have a wider network of

	• Last year, Silicon Valley Bank and Signature Bank collapsed when depositors withdrew funds en masse, surpassing the banks' cash reserves (93.8% of SVB's deposits were uninsured). Despite HSBC's acquisition of SVB for £1 and Flagstar Bank's purchase of Signature Bank, the shockwaves continue as customers are more reluctant to deposit funds with smaller banks.	• According to the Financial Times, NatWest, Lloyds, HSBC, and Barclays experienced a combined outflow of around £78bn in the 12 months ending June 2023, the largest decrease over four consecutive quarters since June 2018. Despite retaining nearly £240bn more in deposits than in 2019, the outflow is in part due to customers using savings to supplement income but also reflects increased competition for deposits.	branches, extending beyond large urban centres, which makes them more visible to local populations who prefer to use them when opening a savings account or taking out a loan. • Overall, both public and private sector banks play crucial roles in India's banking sector, with each offering distinct advantages. Public sector banks are seen as more stable and secure, while private sector banks are appreciated for their efficiency and customer-centric services.
New customer acquisitions	• The most vulnerable regional banks are those with the most anxious depositors, facing the most pressure to appease them with higher rates. However, this will further cut into banks' profitability and potentially solvency. • On the contrary, big banks like JP Morgan continue their branch strategies combined with a new AI-powered investment advice solution, alluring customers who are seeking new banks to replace closed local branches. • A recent report, aimed at aiding financial services in discovering and addressing banking deserts, issued by the Federal Reserve Bank of Philadelphia, indicated that infrastructure gaps and digital disparities remain as barriers for both big and regional banks to deliver suitable services to local customers.	• Today, the Big 5 control 85% of the current account market. Despite trusting their size and scale, nearly three-quarters of their customers feel that the banks only reach out when they have something to sell. • A survey researched 2400 UK adults found that nearly 40 % of them now hold secondary accounts with a digital-only bank. Enticing rewards, personalised ads and seamless, easy-to-understand process will continue to dilute traditional banks' balances and revenue. By 2028, it is estimated that nearly 45% of British people will have digital only bank accounts. However, for the rest of them, physical presence and timely support remain key considerations when customers choose their primary banks.	• India is now the fastest digital adopter in the fastest-growing digital consumer markets with smartphone market growing by 6% year on year in 2023. • India also boasts the world's youngest population, with Gen Zs accounting for 27% (472 million) of total population. • Private sector banks are improving customer experiences with strong omni-channel capabilities, while public sector banks like Indian Bank are enhancing services through digital initiatives, including a simplified process for microloan applications and a mobile app called IndOASIS with various Internet of Things features. • In 2023, UPI transactions totalled ₹139.2 trillion, (73%) of all non-cash retail payments. This figure is expected reach 1 billion transactions per day by 2026-27.
Branch purpose	• Big banks prioritise urban areas for example, PNC's expansion plan targets cities like Austin, Dallas, Houston, and San Antonio, while Chase enters Boston, Philadelphia, and Charlotte. Amidst escalating competition, opportunities persist for small banks to focus on small towns and to differentiate themselves by maintaining a branch presence there.	• Banking hubs have faced considerable criticism since last year, primarily due to the limited customer assistance available and staff inability to address complex needs. Also limited hours available and restrained capacity when they are open in order to service high demand.	• In March 2022, the Reserve Bank of India relaxed lending requirements for microfinance entities. However, the lack of adequate collateral from customers highlights the need to revise regulations for low-income borrowers. • However, 60% of Indians do not consider Hindi as their mother tongue, despite India having over 600million smartphone users, many FS apps fail to serve customers who have little literacy in Hindi. Mobile banking in India is either smartphone based or Unstructured Supplementary Service Data based. Low-income rural borrowers with limited internet access are better served with physical branches which can offer tailored and multi-lingual services.

The 3 geographies studied undoubtedly have different heritages borne out of politics and regulation as much as economics and consumer behaviours. It is therefore not surprising to identify some specific themes emerging for each.

US branch closures are aggravating the issue of "banking deserts." Yet all banking players seem to recognise the market opportunities for deeper connections with customers via face-to-face interactions. Large banks seem to be targeting pan state expansion, focusing on cities with affluent demographics. Meanwhile the costs of maintaining a physical branch have dissuaded many banking firms from serving lower-income neighborhoods, creating a zip code lottery to access face to face service and support.

UK: The UK branch network has contracted significantly. Initially due to the roll-out of telephone, then digital banking services, and accelerated post the 2007-9 financial crash in response to regulatory changes as banks outsourced mortgage advice to brokers and exited from investment and protection advice. Cost control initiatives have led to further branch closure programs and although a few mutuals have stubbornly retained their branch networks it seems as if the point of no return has occurred. The rearguard action by politicians, media and reluctant regulators is on access to cash and the banking hub solution put forward inadequate form the same reason that branch numbers have contracted so significantly. The trend over 3 decades will only be reversed by banks seeing new potential in branches for attracting new customers, securing and maintaining deposits to fund lending, offering complex products and services or a renewed commitment to communities as part of a 'phygital' offering.

India: The country's financial system has long been powered by both public and private banks. Despite digital services expanding fourfold between 2008 and 2022, branch networks are still aggressively expanding to improve reach, capitalise on demand for credit and to fund this lending. The "multi-channel" strategy seems set to stay even as the smartphone market grows at a CAGR of 8.1% over the next 10 years. Despite soaring economic growth, income disparity continues to widen and there is a societal dependence on physical branches, particularly public ones in rural areas. The fact remains that half of the population still lacks access to quality internet services and 78% of consumers across different age groups still prefer local bank branches as their point of contact for onboarding and support.

Can governments, regulators and banks learn from past trends, issues, and strategic drivers in other regions? Undoubtedly!

Governments – Inequality is fundamentally their accountability as opposed to FS firms who need to provide a return to their investors or members. The Chinese example of supporting banks to operate and stimulate economic activity in underserved areas is an interesting one as governments seek to make investments in infrastructure and initiatives that have a multiplier effect providing benefits beyond the investment required.

Banks – Economic cycles are just that cyclical. In determining strategy, the whole cycle needs to be considered. The collapse of SVB in the US has shown the importance, and risk associated with attracting and retaining deposits to remain liquidity and to fund lending. Also, net interest margins are favourable when central bank hold rates high but the reliance on fee income increases when they fall. More complex products and services offer more opportunities for fee revenue but also requires a different fulfilment module.

Regulators – In ensuring the integrity of financial markets and protecting consumers they need to look at the system and consider the unintended effects of their regulatory policies and interventions. The overcorrection in the UK as banks outsourced mortgage advice and exited from investment and protection markets has had longer term consequences for consumers and the business case for branches.

All three actors ideally need to work together to protect and serve consumers, regardless of their wealth status, in a financial system that is sustainable, now and in the longer term

To find out more please contact one of our experts below:

EWEN FLEMING
Financial Services Sector Leader
Johnston Carmichael
Ewen.Fleming@jcca.co.uk

LILIAN LIN
Financial Services Consultant
Johnston Carmichael
Lilian.Lin@jcca.co.uk