



## **Don't Shutter the Branch Yet**

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Despite all the attention given to online banking and self-service, for now, branches remain a strong component of banks' channel strategies, evidence suggests. In fact, while the industry has consolidated some branches and online transactions continue to grow, the number of branches actually is growing at about 2 percent per year, according to Greg Lowell, senior manager of the financial services strategies practice for Accenture (Chicago).

Brick-and-mortar locations still are the primary sales channel, according to industry analysts and bank executives. "By offering robust and integrated channels, financial institutions are in a better position to solidify their relationships with consumers," asserts Mylle Mangum, chairman and CEO of IBT Enterprises (Norcross, Ga.), a company that designs and builds freestanding branches.

Fifth Third Bank (Cincinnati; \$105 billion in assets) is among the banks that are expanding their branch footprints. "The physical branch still does the best job of deepening market penetrations," says Bruce Hobbs, a VP with Fifth Third, which plans to add 75 branches throughout the Midwest and Florida in 2006, bringing its total to more than 1,200.

Another reason for the growing number of branches is the need for banks to acquire low-cost funds in the form of deposits, says Jim Eckenrode, managing director of banking and payments research for TowerGroup (Needham, Mass.). He contends that branches still are the primary way banks attract these funds. The same holds true for mortgages, adds Steve Nichols, assistant VP for Troy, Mich.-based Flagstar Bank (\$15 billion in assets), which is expanding its branch footprint in Michigan and Georgia. Experts agree that, overall, people simply like the face-to-face interaction provided in a branch for transactions such as these.

## **The Branch Evolution**

But today's branch expansion differs from the proliferation of branches in the past, according to industry observers. Now, much analysis goes into both the location and design of new branches. For example, branch location depends largely on statistical models that compare the demographics of a bank's most profitable current customers to geographic concentrations of noncustomers with the same financial profiles, relates Flagstar EVP Alessandro Dinello.

Further, the emergence of remote channels has cut down on many transactions traditionally performed at the branch. As a result, today's branches have fewer teller lines and are about a third smaller than branches of just a few years ago, according to IBT's Mangum, who notes that some new branches include express lanes for customers with simple deposit/withdrawal needs, and others include ATMs or kiosks, Internet stations and child play areas.

Mangum says the branch evolution will continue with the addition of other services, such as shipping. According to an IBT survey, nearly 60 percent of consumers said they'd like to be able to handle their postage and delivery needs at the bank branch. Mangum relates that there have been some very preliminary discussions among bankers and shippers about providing such services.

While Accenture's Lowell expects branches to continue to evolve and the building cycle to sustain current growth levels for the next few years, he says the cycle is probably nearing an end. "Banks tend to operate in a pack mentality," Lowell comments. "Once the expansion phase starts to peter out, it won't be too long before some branches start closing."

