Revolutionizing banks

through branch transformation

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The retail banking industry is facing an existential dilemma: Adapt to a market that's changing faster than it ever has or fall behind and risk losing out to competitors.

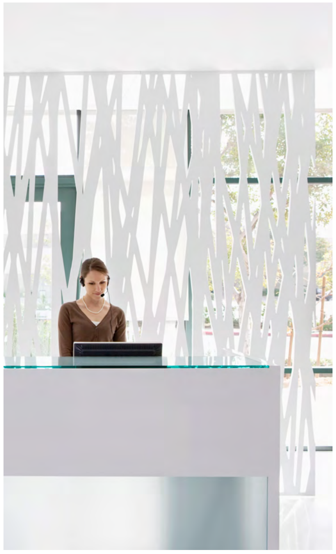
Transforming branch locations to meet customer needs is part of successfully adapting, which means banks need to find ways to craft a better in-person experience.

The market that gave us massive growth in bank branches doesn't exist anymore. The advent of the digital world made digital remote banking a reality and ended the need many customers had for in-person help with their accounts, loans, and other transactions.

Banks have been closing branch locations at an increasing rate for several years — a situation that only accelerated during the pandemic. U.S. bank closures averaged about 2,800 a year prior to the pandemic, according to FDIC data. Making matters worse, a report from the National Community Reinvestment Coalition shows the closure rate doubled during the pandemic amidst lockdowns while customers became more comfortable with mobile options.

The largest banks may be able to weather the transition away from in-person banking, but midsize and smaller banks need to find ways to differentiate themselves to attract and retain customers. Branch locations are the public face of a bank, and without them, it's difficult to adequately serve the local community. By transforming the in-person experience to truly meet customer needs, banks can keep branch locations open and give customers a superior experience.

Banks don't, however, have to start from scratch to overcome the legacy that led to the glut of bank locations. Instead, they can give their branch locations a competitive edge by leveraging new technologies and technologies that have already proven successful in other customer-focused industries.



The branch bank crisis

Historically, U.S. banks provided local services tailored to meet the needs of a community. That led to thousands of physical locations across the country, each operating within geographic boundaries such as a town or community with common needs. Those boundaries made sense at the time because banking services, from opening accounts to managing local business loans, were handled in person. They became less relevant, however, as banks grew to cover regions instead of just local communities.

With the advent of digital services, boundaries started dissolving at a faster rate. Customers saw less of a need to visit physical locations, banks accelerated their adoption of digital services, and ultimately more branch locations closed. As in-person transactions continued to decline, branch locations became too expensive to operate since it costs significantly more for employees to handle the interactions than mobile apps or ATM kiosks. The end result: more branch locations shut down.

"Digital channels have become the primary means of interaction with customers, and physical locations have become significantly less important. The geographical boundaries for banks have mostly disappeared. You're not only competing against local banks within the community, but you're also competing with national banks and even purely online platforms," says Roji Oommen, Managing Director of Financial Services at Lumen Technologies.

While closing bank branches sounds like a reasonable solution on paper, thanks to overall lower operating costs, it isn't necessarily the right solution. The largest banks, for example, have nation-wide brand recognition regardless of the number of local branch locations they maintain. Medium-size banks, on the other hand, need to find ways to differentiate themselves to avoid getting lost in the pool of competitors. In a market where anyone has the ability to set up a checking account online with practically any bank, branch locations can be key in building brand recognition and customer loyalty by offering a better in-person experience.

Whether or not to close a branch location comes with other considerations, too. Banks also have to take into account the impact government regulations may have on the decision. The Community Reinvestment Act, for example, regulates how banks offer financial services within their community. A bank could face regulatory action if closing a branch location was seen as a move that negatively impacts access to financial services for certain income groups.

While the outlook for bank branches sounds grim, it doesn't have to be. Banks can instead transform those locations to better serve customers, and improve brand visibility and loyalty, too.

Building a better bank branch experience

> Addressing the omnichannel experience is the perfect place for banks to set themselves apart from competitors.

The largest banks are giving smaller competitors an opportunity by focusing on maintaining up time for services, but they aren't investing in substantially improving the customer experience. By not innovating in the customer experience area, the big banks have exposed a chink in their armor and handed smaller banks a chance to provide a superior customer experience, and branch locations play a part in that.

While maintaining reliable service access is important — no bank wants to tell customers they can't access their accounts — addressing the omnichannel experience is the perfect place for banks to set themselves apart from competitors. Targeting a consistent, user-friendly, and reliable experience across mobile, desktop, and in-person transactions helps shift the perspective from "I have a checking account" to "I have a financial partner."

Tracking the user experience in remote interactions through mobile apps and desktop web services is fairly straightforward since the technology lends itself to tracking nearly every aspect of the user's actions. Mobile and web apps can show which features and services are most commonly used, where users get confused, how long users spend on specific tasks, where people physically are when they access remote services, the time of day when a customer visits, and more. Collecting meaningful and accurate data during in-person transactions, on the other hand, is a little more nuanced.

Historically, customer surveys have helped identify where banks can improve their services. While useful, they don't paint the full picture in today's digital banking world. Surveys help define what customers say they want but may not always identify what customers actually need. For that, on-location real-time data collection can be much more revealing. That's where banks can turn to retail innovators for inspiration on learning how customers use their services, and then adapt to gain a leg up on competitors.

Apple offers a prime example of retail innovation in action. The popular tech company entered the physical retail market at a time when other computer sellers were stumbling and closing stores. By monitoring how customers used their stores, Apple has been able to continually improve the in-person services and products it offers to give customers a consistent experience across all its locations, while also tailoring services for local needs in each store. The in-store interaction fits in as a part of the company's omnichannel strategy, so customers have a familiar experience when they're using a smartphone or computer or talking with an employee in a store.

Of course, other companies have successfully used in-store data collection to improve the user experience and offer better services, too. The technologies to track in-store activities already exist, and by following the retail sector's example, banks can leverage that to their advantage.

The technologies retailers use to gather data on in-store activities lend themselves well to the needs of banks. Smartphone proximity sensing, as an example, can track where customers spend time in a bank and how much time they spend at a counter or kiosk. Cameras using machine vision can also track individual customer activity, and can play a role in transaction processing, too. That data can help determine which in-store activities consistently require human interaction, and which are better served with a kiosk. For person-to-person interactions, facial recognition can provide quicker access to customer accounts, or even help employees address customers by name. "Hi, Ms. Walters. How can I help you today?" is much more personal than, "How can I help you?"

> "The technology already exists in other industries like hospitality, retail, and even in healthcare. It's quite mature and it's not that expensive," Oommen notes. "Let's say you want to create physical triggers for a digital data aggregation platform that gives you greater insight into your customer base. That technology exists. The reason banks generally don't adopt it is because the technology infrastructure at the branch itself often won't support some of these new things."

Banks can partner with a company that already has the infrastructure and experience to support secure data collection and management across multiple branch locations.

Bank branch services typically run from off-site servers. Without the on-site systems to support tools like location-based sensors or facial-based recognition, for example, and the people with the expertise to install and maintain them, it's easy to see why many banks don't go down this path. That lack of technology and resources at the local level, however, doesn't have to be a stumbling block. Instead, banks can partner with a company that already has the infrastructure and experience to support secure data collection and management across multiple branch locations. Lumen, for example, can install and manage sensors and other customer tracking technologies at multiple locations, aggregate the data, and deliver the information to the bank without needing to burden the bank's IT teams.

“Lumen has a service model that allows banks to use data collection technologies like beaconing, location tracking sensors, and cameras and machine vision algorithms. We handle the installation, set up the data aggregation, manage the systems, and deliver the data to you with minimal disruption and minimal cost. It makes the business case much, much easier,” Oommen says. This means a bank doesn’t have to invest resources in purchasing and installing sensors, buying servers and software to manage the data they collect, and then invest the time for in-house IT teams to install hardware at each branch location.

Lumen also gives banks the flexibility to adapt with technology changes and try different monitoring and data collection strategies. Instead of being locked into whatever choices they initially made, they can try alternatives. As new technologies emerge, those are options, too.

Intelligently leveraging customer data collection and analysis is an important part in transforming bank branch locations into successful in-person customer interaction resources, and in keeping them as valuable assets for the company. The tendency for large banks to focus on systems reliability over innovation tends to leave them with a homogenized branch location experience: they’re all the same, no matter where you go. This approach is fine for some businesses, like fast food restaurants, where customers expect to walk into any location and order the same thing. For banks, tailoring locations for local needs will have a more positive impact.

Banking success at the local level

The competitive edge in today’s banking market comes from breaking out of the cookie-cutter mold. Identifying and adapting to customer needs is key to success. In an industry where so much is defined by regulations, it’s the customer experience that truly sets banks apart, especially during a time where branch locations are closing at an unprecedented rate.

Using the right tools and services to craft a better experience is an important part in successfully transforming branch locations into profitable and sustainable assets. Delving into customer insights through meaningful user data is key to that goal, and helps improve branch efficiency, reduce costs, and increase profits.

“There’s a shift towards trying to gain insight into what customers want. We think the best way to do that is by experimenting, capturing data, and measuring,” Oommen notes. “Lumen enables banks to be proactive and build a technology platform that lets them try all kinds of different things at minimal cost with minimal friction.”

Instead of closing buildings, banks can transform their branch locations into competitive differentiators that attract new customers and build loyalty. In the wake of so many closed banks, that’s the leverage they need to avoid becoming another statistic in an FDIC spreadsheet and instead be truly successful. This is the opportunity for banks to move forward from the world where they were originally conceived into a new market that embraces the digital and in-person experience.

About Lumen

Lumen is guided by our belief that humanity is at its best when technology advances the way we live and work. With approximately 450,000 route fiber miles and serving customers in more than 60 countries, we deliver the fastest, most secure platform for applications and data to help financial institutions, businesses, government, and communities deliver amazing experiences. Learn more about the Lumen network, edge cloud, security, communication and collaboration solutions and our purpose to further human progress through technology at:

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