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Banks must transform to survive

Retail banks are under unprecedented competitive pressure. After decades of steady growth, consolidation, and branch network expansion, technological and regulatory changes are disrupting business as usual. New market entrants and revenue disintermediation are coming from traditional retailers, and from new competitors in FinTech. The security landscape continually changes with new bad actors, new exploits, and proliferating avenues of attack. At the same time, customers have become increasingly comfortable with technology, which has driven their demand for superior service and convenience — and drastically changed their banking habits. The COVID-19 pandemic accelerated trends that were already in place. As new channels for interaction open up, they also expand security risks in an environment where a bank's brand can be destroyed by a single breach of consumer data.

While this new business environment impacts every part of a banks' operations, retail branches are ground zero for change. Branch network expansion continued in the U.S. up until 2009. Today, banks are closing or repurposing/ rightsizing branches in response to widespread trends, including a slowdown of branch-generated revenue growth, widespread adoption of digital channels, changing customer demographics, and increased omnichannel banking.

Challenge

Competitive pressure and client demands require retail banks to transform their branch networks and delivery channels. However, cost controls and resource constraints can limit their ability to implement the IT operating model and security technologies necessary to innovate and achieve their desired objectives.

At stake

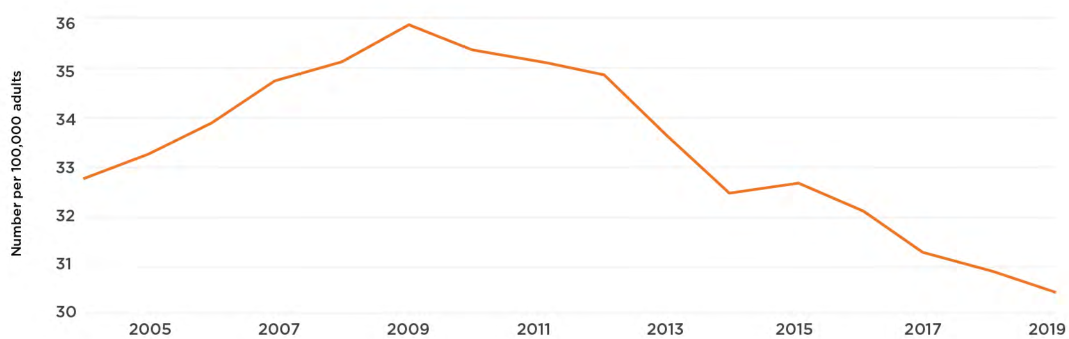
Inability to deliver an improved and consistent customer experience will lead to loss of market share and dwindling margins.

Solution

Reduce the risk of costly in-house IT infrastructure transformation by partnering with an experienced platform provider that designs security into its network and layers additional measures on top of that foundation.

As the data demonstrates, the number of retail branches has dropped significantly in the last ten or so years.[1]

Number of United States bank branches



This data from the Federal Reserve does not capture the impact of the COVID-19 pandemic, which accelerated changes in consumer banking. McKinsey reports that "Should these emerging preferences become banking's post COVID-19 "next normal," retail banking distribution will experience up to three years of digital preference acceleration in 2020. Five in some markets, this may translate to 25 percent fewer branches, with those remaining performing a different set of activities with more flexible job configurations."[2]

As the data demonstrates, the number of retail branches has dropped significantly in the last ten or so years. Nevertheless, despite the high cost of keeping branches open and the rise of less expensive delivery channels, it is too soon to declare the branch irrelevant. Even mobile customers still interact with branches. As McKinsey suggests above, flexibility in rethinking what happens at the branch – and how it fits into an omnichannel relationship with the consumer – is a better approach than cutting branches wholesale.

1. World Bank, Number of Bank Branches for United States, retrieved from FRED, Federal Reserve Bank of St. Louis, October 2022
2. McKinsey & Company, Reshaping Banking for the Next Normal, June 2020

Even in the midst of a pandemic, American Banker magazine observed that many institutions "signaled intentions to open or expand hundreds of branches and facilities." The industry publication noted that physical branches play a marketing role as well as a preferred site for many transactions such as opening accounts or replacing debit cards.[1]

Bank branches put an institution's name into the community in a physical way. People see them as part of their everyday lives. While digital interactions are efficient for many frequent transactions, consumers also know they can have a face-to-face conversation with a human being for more sensitive interactions such as mortgages, car loans or even opening bank accounts.

Though bank executives recognize that branches are important, they have not developed the most effective branch strategy to keep pace with today's retail customer and the changing technology landscape. Industry experts acknowledge that in order to deliver its full value, a branch needs to be part of a fully integrated and secure customer experience. According to a recent Forbes survey on digital banking, many Americans still prefer banking in person. More than a quarter of Americans say they prefer to do their banking at a branch.[2] Why? It may boil down to personalization and trust.

Banks will not become profitable just by trimming the branch footprint or cutting costs. They need to adopt a platform approach for their IT and security needs in order to boost branch profitability and ROI. Otherwise, banks will experience a collapse of margins and customer base. Smart transformation requires that banks:

- Understand customer needs and implement omnichannel strategies to deliver an improved and consistent customer experience
- Comply with regulations and remain vigilant in the face of ever-changing and increasing cybersecurity threats, while pushing innovative services and IT infrastructure out to the edge
- Formulate and execute the lowest cost, highest return strategies for serving customers and achieving growth

1. American Banker, Credit Union Branch Expansion Continues in Face of Pandemic, January 2021
2. Forbes Advisor, Digital Banking Survey: How Americans Prefer To Bank, February 2022

Understand what customers want — and deliver It

To guide branch transformation, business and IT decision makers need to quickly deliver the services that customers now want. The objective remains the same: increase customer retention and grow revenues. But today's customers have higher service expectations and lower customer loyalty than ever before, so banks need to provide convenience and value, or customers will move on.

Bank channels must be integrated and offer the customer self-service, anytime, anywhere, across all banking platforms. This includes online, call center, ATM networks and in the branch. Integrating those channels – and doing so securely – requires an integrated platform that can connect the branches to each other, to the cloud, and to the applications necessary to deliver services to and through the branches so they can maintain a role in the omnichannel banking experience. Edge compute capability can move applications and customer data closer to the branches to decrease latency. Edge compute facilities can also aid in managing branches on a regional basis.

Today, in order to increase revenue, customer base, and customer loyalty, banks need to exceed expectations and delight their customers. They need to analyze and understand individual needs, usage, and preferences, and differentiate themselves by consistently offering more personalized service than their competition. Increasingly, personalized loyalty programs are viewed as an important tool to drive revenue and reduce customer acquisition costs. Robust data analytics platforms, supported by an agile IT infrastructure, enable banks to analyze and manage customer touch points across online and mobile apps, call centers, ATMs, and physical branches, and then use this data to gain insights into customer needs and values.

With a robust, integrated platform of networking, edge compute, connected security and collaboration services, banks gather and analyze information locally, sending only key data to AI engines in the cloud, reducing network costs and putting more intelligence closer to the branches.

Banks can then leverage these insights to provide more personalized, timely, and innovative banking services, such as reward programs, special offers, and purchase analysis to drive growth and encourage retention. To cross-sell to an existing base more effectively, banks need the analytic capability to go beyond segmenting customers by traditional demographics, and instead must analyze each customer's financial lifecycle, spending patterns, banking channel behavior, and banking product usage.

According to a recent Foresight Report on Retail Bank Loyalty Programs, such analytics enable banks to, “target and isolate the most profitable customers and phase out the programs that do not offer significant value to a bank’s overall business. Moreover, analytics are enabling banks to provide location-based, real-time discounts in collaboration with merchants. The successful implementation of analytic-based reward programs has become a key differentiating factor for banks.”[1]

Ensure security and compliance with regulations

It’s not glamorous, but regulatory compliance is essential. In transforming the branch structure, banks need technology that makes it easy to operate within the FFIEC reporting framework and meet all of the requirements for the industries and countries in which they operate. From the head office to the data center to the branch teller, banks have to ensure compliance with an “alphabet soup” of standards and regulations, including the Payment Card Industry (PCI), the Federal Information Security Management Act (FISMA), SSAE 16 SOC 1 and SOC 2 compliance, and others. Ensuring full compliance is complicated. Banks often turn to vendors with compliance expertise in the myriad of requirements across branch networks.

Your security must be holistic and proactive. It cannot begin with an incident.

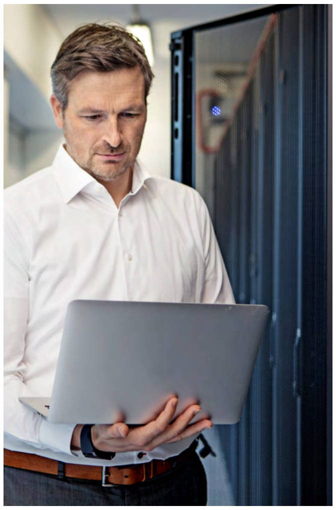
Compliance goes hand in hand with security today. Bad actors are proliferating, highly organized and sometimes sponsored by nation-states. Staying secure in a fast-moving world requires a strategy, security partners and ongoing vigilance. Your security must be holistic and proactive. It cannot begin with an incident.

Attacks come in many varieties as well. The media has written extensively about ransomware attacks on hospitals as they need constant access to their data, operate on mission-critical applications and fear the loss of customer trust if they admit to being attacked. To hackers, banks increasingly look like hospitals. Operations are mission critical and 24/7. They can’t operate with their data and processing systems hijacked. Distributed Denial of Service (DDoS) can frustrate their customers, but these can also be distractions covering up more damaging exploits. Like hospitals, banks are likely to lose business if consumers feel they cannot trust them to secure their data and preserve the integrity of transactions.

Holistic security starts with the network connecting branches. Major carriers invest in network security to protect themselves and all customers. Additional technologies can be layered on top of the network to tailor security to particular needs. Adding edge computing capability enables banks to move more security functionality to the edge, implementing capabilities such as Zero Trust Access and Secure Access Services Edge (SASE).

Once again, the platform approach lays the foundation for a holistic security strategy.

1. 2020 Foresight Report: Retail Bank Loyalty Programs, July 2018



Deliver excellence for less

As the costs of complying with ever-changing regulations increase and revenues stagnate, banks are under pressure to significantly cut their spending. The cost base of many banks is too high to remain competitive. Retail branches must cut costs and generate more revenue to justify the expense of owning and operating them. Banks may need to trim back branches and will certainly have to maximize their traditional strengths — their ability to bring in new customers, facilitate sales of complex products, and offer face-to-face advice and guidance to customers.

Many banks prioritize cross-selling to existing customers and building customer loyalty over reducing branch service costs. To encourage customers to use the branch as an integrated and personalized channel, retail banks need to make changes in their culture, technology, and configuration of traditional branches.

Changing culture can be as easy as conducting retail branch personnel training to prioritize relationship building over traditional transactions. New technologies that improve staff productivity and aggregate and report data from various customer interactions with different channels may support this shift. But the most dramatic change is likely to come from optimizing configuration of network branches. As customer foot traffic continues to decline, banks have to redefine their traditional understanding of what a branch is. For example, some smaller branches are becoming little more than self-service, unstaffed kiosks, while larger city branches transform into full-service flagship branches.

As a result, it is likely that branches will employ fewer staff, but will leverage additional technology tools. IT transformation extends far beyond visible signs of change, such as roaming bank staff carrying tablets on site. As part of cost-effective branch rightsizing, banks need to remotely manage IT needs without deploying IT people at the branch. As banks continue to push services out to the edge, they must reduce the massive support burden, alleviate the potential for security breaches, and initiate a more advanced network for innovative branch service rollout.

Think outside the data center box: Outsource IT infrastructure services

Banks must implement an agile IT infrastructure that supports a seamless customer experience, using lower cost channels for transactional flow and higher value channels for premium clients. While IT professionals may initially view IT transformation as a cost savings exercise, the long-term benefits include efficiencies in IT and business operations, enhanced corporate agility and increased profitability.

For a fully integrated secure infrastructure, choose just one IT partner

The transformation of in-house IT infrastructure has traditionally been a complex undertaking, with a great deal of implementation risk and capital outlay. It ultimately creates a new legacy system that will require an update, usually sooner than expected.

To break free of this cycle and reduce the risk and cost of transforming in-house IT infrastructure, banks can outsource to a single platform provider. Outsourcing makes sense from financial, IT operations, and business standpoints.

Financially, banks can fund their new infrastructure from an OpEx rather than a CapEx model, which supports capital adequacy and liquidity ratios and improves their efficiency ratios.

Working with a trusted partner who can bring an integrated platform brings with it broad and deep industry expertise.

From an IT perspective, outsourcing increases efficiencies by consolidating management of networks, data operations, and branch computing power to remove complexity from both transformation and ongoing operations. Working with a trusted partner who can bring an integrated platform brings with it broad and deep industry expertise. Branch transformation projects require a specific set of skills across networks, computing, and security services, but too often banks incur risk and inefficiencies. They are fragmented across network providers, computing suppliers, software vendors, and infrastructure services. But with an expert infrastructure partner, banks can tap into a large pool of diversified expertise around the latest technologies and best practices while capturing efficiencies and reducing operational costs.

Most importantly, from a business point of view, outsourcing allows banks to provide flexible branch capabilities at lower cost points, without needing IT staff at the branch. A centralized, outsourced IT platform can support a range of branch configurations from a self-service kiosk to a fully staffed flagship branch, offering agility to support the most demanding retail customer. By leveraging hybrid IT and IaaS models, bank branches can provide a wide range of services — such as colocation, managed hosting, cloud, network, and consulting — to meet both current and future business needs and customer demands.

> Outsourcing enables banks to move at their own pace to access the expertise, tools, and capacity they need to meet their goals — whether those are for branch transformation, extension to new digital channels, or other operating efficiency improvements.

The fastest and most effective way for banks to implement, secure and scale new services, products, and capabilities is through IT platform outsourcing. To transform retail branch capabilities and align their cost structure with the new economics of retail banking, banks should look for an IT partner that understands the banking industry, the challenges banks face, and new and ever-changing regulatory requirements. In addition, banks should avoid piecemeal outsourcing. To simplify the transition process and maximize cost efficiency, IT effectiveness, and business agility, banks should look to build a comprehensive partnership with one platform provider that can do it all — delivering a unified managed services approach across voice, data networks, computing, infrastructure, and security services.

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