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The future of retail branch banking in a hostile economic environment: A round-table discussion with Derek French (Campaign for Community Banking Services), David Cavell and Eric Leenders (BBA) held on Thursday, February 28, 2008 at Bakers' Hall, Harp Lane, London, EC3R 6DP, from 12:30-2:15pm.

Around 40% of bank branches or 8,000 units have been shut since 1990, leaving Britain substantially under-banked compared with its European neighbours. Spain, for example, has five times the number of branches per million people. The UK figure has been stable for the last six-odd years. But an impending economic downturn could be a trigger for a new wave of closures. Lloyds TSB, for instance, ended a pledge covering 120 branches 18 months ago and has so far shut 20. The first speaker said that against the background now was the time to be thinking of innovative solutions that went beyond putting coffee machines and comfy sofas into branches.

His solution is sharing banking whereby the Big Four – Barclays, HSBC, Lloyds TSB and RBS/NatWest – could share a single facility on a for-profit basis. The factor underpinning this is that branch closures save money. If the Big Four were to close 300 each that would generate £1bn a year of savings. The idea is that participating banks use one of the closed bank buildings and outsource its operation to a third party, who would provide the counter service, security and utilities and provide the link to the clearing system. The banks would set up bank-branded desks with their staff to answer queries and discuss problems. The idea is similar to airlines sharing baggage handling or fast food outlets sharing tables owned and maintained by a third party.

The advantages for the banks would be a stronger focus on sales and service; potential for longer opening hours; and positive exposure from keeping a branch open. Some members warned that it open the door to comparison-shopping with banks responding with one-off gimmicks to encourage customers to switch. Another a more serious objection was that it would make it easier for small banks who would not otherwise be able to enter that market to gain a foothold at the expense of larger banks. Another said if successful, it would be an own-goal for campaigners, as it would encourage banks to close branches they had not otherwise considered.

The second speaker said a bank closed a branch when the cost of maintaining that personal relationship with the customer exceeded the rewards. The point of three or four banks sharing facilities was that it altered that equation. The US provides a positive comparison. Some 1,400 credit unions share 3,000 branches where members can carry out any of 70 transaction types. On top of that are 70 "standalones" – centres run by commercial outfits who create a branch with non-specific branding that banks and credit unions can use. He used Chipping Sodbury, a dormitory town near Bristol, as a UK example. If all four banks were to shut, a third party could take over one bank building and run the counters and services. He didn't know if it was financially viable – but it made

practical sense. One member said one could open up to other companies that wanted a counter services such as utilities and telecom and TV providers.

The third speaker said branch sharing was commendable blue sky thinking driven by the supply side. However a look at the demand side shows that customers did not want a return to 1990-style banking and that there was no general dissatisfaction with UK banks. The growth of the Internet and telephone banking meant that a branch closure did not mean people were left with nowhere to go. People liked multiple ways of accessing their bank account and the ability to shop around on the Web. People want to go a branch not their branch, whether near home, their office or the shops. He said there were 750 key bank locations that allowed 90% of customers to be within a 10-minute drive of a branch. One high street bank did a pilot branch with Citizens' Advice as they thought that would gain community leverage. No one came; people were happier to use a traditional branch. He said shared banking would create a two-tier system of 750 core banks and the rest that were neither fish nor fowl. If banks and utilities wanted counter services on the high street, the answer was to retain their high street presence.

The first speaker it was sad that the banking industry always focused on reasons why not to innovate. While the people who did not or could not use Internet banking were small minorities, added together they made up a sizeable number of people. One member said that ATMs and the Internet had created extra transactions rather than displaced them from the branches. For instance the amount of money withdrawn in the branch was the same in relative terms as it was 30 years ago, while people used the Internet to check their balance in a way they simply could not do before. However the same people still need branches to pay in cheques and seek advice.

The second speaker said all the research he had seen pointed to fundamental shortcomings in the current banking system. The third speaker said sharing banking was not high on the agenda of banks, which were concentrating on developing relationships across all channels. He added that regulation had increased banks' workloads. One member added that the UK did not have the supporting factors that Continental banks did in the form of lower property values, a banc assurance model, a tradition of regular charges and local monopolies.

There is no doubt that as alternate channels grow in number and popularity the economics of branch banking will be tougher. The round-table showed that as the economy approaches a downturn there is little sign of agreement over the way though it between the banking industry and its critics.