THE EVOLUTION AND THE FUTURE ROLE OF THE BRANCH IN DISTRIBUTION OF THE BANKING PRODUCTS AND SERVICES

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ABSTRACT: *Debate about the role of the branch office in the retail banking business is nothing new. The discussion of branch existence has been going on since the appearance of the internet, mobile phone. Despite the development of new distribution channels and falling number of customers, the branch is by no means dead! In fact, surveys and studies have consistently shown that it remains the customers' preferred channel: they still value face-to-face discussions with their bank officer. Currently the branches contribute to about 85% of sales. The branch needs to evolve so that it provides customers with a powerful and attractive alternative to the other channels that are appearing. What is the role of branch in the multichannel banking? Banks should have the ability to deliver the right service, at the right time in the right channel.*

KEY WORDS: *branch; banking products and services; distribution; banking distribution channel; multichannel*.

JEL CLASSIFICATION: *M31.*

1. DISTRIBUTION IN RETAIL BANKING

Banks have faced several challenges over the past years. One of them is how to efficient deliver their products and services to the customers. The main distribution channels in retail banking are: branches, ATMs, mobile banking, call centres, Internet banking. This article will explore the evolution, challenges and opportunities that lie ahead for branches as distribution channel in retail banking.

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2. TYPES OF BRANCHES AS DISTRIBUTION CHANNELS

The branch represents the traditional way of distribution of banking products and services. The distribution is made by the traditional counter, where the customer and banking officer meet each other.

Banks are experimenting with different branch formats. These provide a stimulating but also relaxing environment and enable banks to trial new products and services. As an alternative for the classic branches, **specialized branches** have been created. They focus on a certain type of activity such as: operations for individuals, small and medium sized enterprises or for corporate clients. These specialized branches have been created in order to have a close relationship with these clients and to better serve them. Different customers require different segment approach.

The main reason of segmentation is to reach different customers with appropriate channels and products. For individuals and small and medium sized enterprises, banks opened **retail branches** in malls and supermarkets. They have an extended work programme (they are opened as long as the malls and supermarkets are opened – even on Saturdays and Sundays). Their primary activities are consumer loans, basic banking operation (domestic and international payments, bill payments, cards etc.). For corporate and top clients banks have created **corporate branches** and **private branches**. These clients require sophisticated products and services, high standards of quality. Therefore the staff employed in such branches should be seniors in terms of banking knowledge and the quality of service delivery.

Specialized branches have been created not only for different customer segment, but also for different products. As a result of high demand for mortgage products, banks have created **mortgage branches.**

Self banking branches have been created as a result of appearing of a new type of customer who is familiar with the latest technologies and who requires electronic services. In these branches the clients can use self banking devices which can be used all day long, seven days a week. The operations that can be done are: deposits, domestic and international payments, money exchange, cash deposit and withdrawals, repayment of loans.

Mobile branches are flexible and movable branches. They are used to reach customers in rural area for example or by banks which do not have a branch network. These branches can be quickly installed or relocated to another place.

In order to provide a stimulating but also relaxing environment and to enable banks to trial new products and services, the **banking cafes** have been settled. The banking café is the result of partnership of a bank and a café. These branches were created in cities with large business communities and they offer a full range of banking products and services.

3. THE ROLE OF BANK BRANCH IN DISTRIBUTION OF BANKING PRODUCTS AND SERVICES

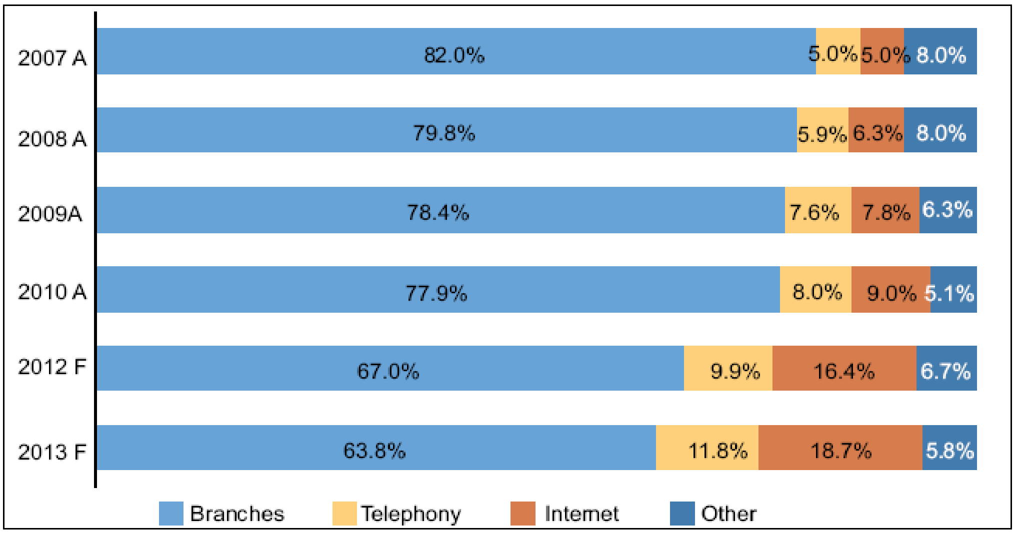
Despite the development of new distribution channels due to the technology, the branch still plays an important role in distributing the banking products and services. The discussion of branch existence has been going on since the appearance of the Internet, mobiles phone, e-commerce. The banks considered the mobile distribution channels as an alternative to the branch and, in their opinion, the direct banking could easily replace the traditional branch channel. In this respect, the banks made important investments in development of services that are not based in the branch. This has led to a dramatic increase in the use of Internet and mobile banking, whilst the role of ATM has also increased. These large investments in direct channels were made taking into consideration the multiple advantages of direct channels:

- close to clients which will reduce the visits to branches;
- no more queues at the banks counters. So the clients can save money and time;
- accessibility – direct channels are available 24 hours a day, 365 days a year;
- higher quality services, operated in real time, offered at attractive prices;
- possibility of quick and efficient information exchange;
- the banking operations are carried out in complete security and confidentiality.

Everybody expected the clients would move from “face-to-face” banking to direct channels and the branch would disappear. In the 90’s, most of the people were pessimistic about the branch existence. Bill Gates forecast the death of the bank branch. In his opinion the branches took the path of dinosaurs. His saying is quite well-known: “Banking is essential, banks are not.

However, the opposite happened. Bank branch have been stable and getting more importance in distribution of banking products and services.

According to 2011 Multichannel Banking in Europe Report issued by European Financial marketing Association and Finalta to whom over 400 participants from 40 European countries took part, the achieved and forecast proportions of all retail banking sales made through each of the main distribution channels are shown in figure 1.



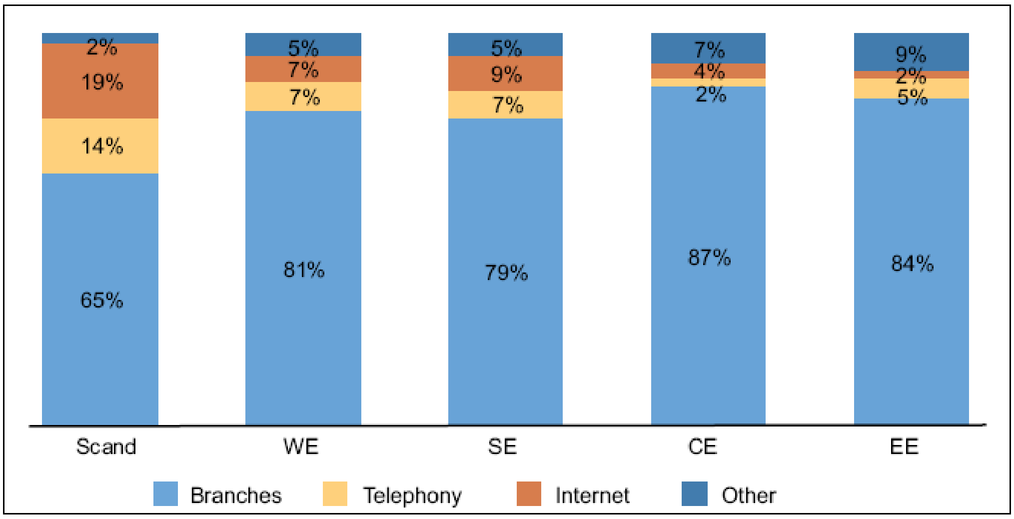
Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

Figure 1. The percentage of European retail banks sales by channel

As we can see from this chart, since 2007 the proportion of retail bank sales made by branch has decreased from 82 % to 78 % (whilst the proportion of sales made by internet has nearly doubled to almost 10 % in 2010). There is a change on a year-to-year basis on direct channels sales (taking into consideration the impact of information and communication technology on banking industry). Sales are moving away from branches. In terms of volumes, the branch remains the dominant channel.

As we can see from the chart above, the proportion of 2010 branch sales accounts from just under two thirds of sales in Scandinavian countries up to 80 % in Central and Eastern Europe.

Nowadays, discussions still focus on the effective size and the role of branch network. Besides the large costs involved in settling up and in developing a branch network, it is important to point out the reality of these bank branch networks which differs from one country to another.



Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

***Scand** – Scandinavian countries: Denmark, Finland, Norway and Sweden.*
***WE** (Western Countries): Austria, Belgium, France, Germany, Ireland, The Netherlands, Switzerland and United Kingdom;*
***SE** (Southern Countries): Italy, Greece, Malta, Portugal, Spain and Turkey;*
***CE** (Central Europe): Croatia, Czech Republic, Estonia, Hungary, Lithuania, Poland Slovakia and Slovenia;*
***EE** (Eastern Europe): Bulgaria, Romania, Russia, Serbia and Ukraine.*

Figure 2. Regional analysis, the percentage of European retail banks sales by channel

As we could see, the reality of branch network in European countries differs substantially from one country to the other. The number of branch offices per 1.000 inhabitants ranges from 0.16 in Estonia and 0.19 in Czech Republic to situations such as those in Cyprus and Spain which have almost one branch office for every thousand inhabitants. In terms of number of employees in a branch, there are also important differences (Bulgaria – 5.68, Spain – 6.02 in opposition with United Kingdom – 38.11

or Malta – 33.05). It can be seen that countries with less branches offices per 1,000 inhabitants have larger team in their branch offices. Regarding the number of employees that serves 1,000 inhabitants, there are no important differences among the European countries.

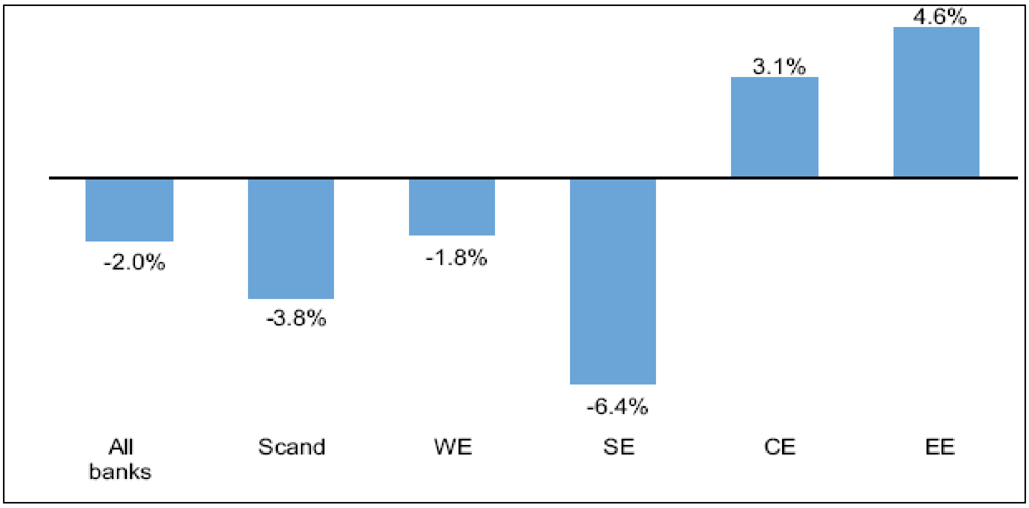
Table 1. European Banking Comparison 2009

Country	No. of branches	No. of branches per 1000 inhabitants	No. of employees/branch	No. of employees/1000 inhabitants
Bulgaria	6038	0.80	5.68	4.53
Czech Republic	1998	0.19	19.22	3.66
Denmark	1996	0.36	25.10	9.07
Estonia	213	0.16	26.73	4.25
Ireland	1228	0.28	31.09	8.55
Greece	4078	0.36	16.10	5.83
Spain	**44431**	**0.97**	**6.02**	**5.82**
Italy	34035	0.56	9.48	5.35
Cyprus	930	1.17	13.45	15.68
Latvia	624	0.28	19.82	5.48
Lithuania	972	0.29	11.22	3.27
Hungary	3551	0.35	12.00	4.25
Malta	116	0.28	33.05	9.28
Netherlands	3137	0.19	35.07	6.66
Austria	4167	0.50	18.54	9.24
Poland	13292	0.35	13.77	4.80
Portugal	6430	0.60	9.68	5.85
Romania	6425	0.30	10.57	3.16
Slovenia	706	0.35	17.26	5.97
Slovakia	1230	0.23	15.24	3.46
Finland	1538	0.29	16.18	4.66
Sweden	2147	0.23	22.86	5.25
United Kingdom	12360	0.20	38.11	7.63

Source: European Central Bank (Report on EU banking Structure – September 2010)

According to the EFMA/Finalta 2010 Multichannel Banking in Europe Report, banks predicted a 2 % decrease in size of the branch network (with significant regional variation). The most mature European market expects a reduction in branch network size. Banks in Central and Eastern Europe expect branch numbers to rise by 2015. Eastern European banks forecast increases of nearly 5 % in the next five years as they increase customer acquisitions.

What will be the future role of branch as a distribution channel? The large development of Internet made us believe that an increasing number of clients would forsake the traditional branch and they would use only new channels. As we could see, the clients use a mix of channels that are at their disposal and a lot of people still demand the traditional branch office with people that they can talk to.



Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

Figure 3. Forecast change in number of branches for European banks, 2010 to 2015

The branch represents the image of the bank and the place where the client meets the bank. The bank's president is far away and not always known by to customers. However the client manager is close, he advises, he listens to the client, makes clients' financial life easier (Gaudins, 2009). Surveys and studies have consistently shown that the branch remains the customers 'preferred channel. Clients still value face to face discussion with their bank advisor. Every customer contact with the bank within the branch is an opportunity to further understands his needs, preferences and expectations. The branch is the most important way of building up a relationship!

According to a survey carried out by Accenture in September 2008, the branch is the most preferred channel for all the interactions that emotionally involve customers, such as buying complex products (76%) receiving financial advise (71%) and resolving an issue (59%). 73% of the customers visiting a branch say that they are looking for a personalized contact (EFMAG Magazine, 2009). In this respect, the branch is a distribution channel where the human factor plays a dominant role. Branches are costly but provide an invaluable service.

4. CONCLUSIONS

Multi-channelling is more than offering multiple channels. Multi-channelling demands, therefore, that all channels should be complementary and not alternative to the traditional branch. In this context, what really does represent a challenge for all financial entities that are involved in retail banking, is to determine the role of branch office teams, in such a way that they can provide value for their customers, that is to say, that they offer that which complementary channels can offer with much greater difficulty, and certainly, in a less specialized manner: advice and customized attention.

The most important financial decisions made by individual customers, such as, for example, taking out a mortgage, or deciding on investments for their retirement, are normally taken through people, and not by means of mere computerized simulators or consultants at remote centres. This happens not because standard on-line solutions does not suit customers, but rather because in the last analysis, this whole process involves a “trust” factor; a subjective factor of a psychological nature, that only a one-to-one personal approach provides for the majority of individual customers.

In fine, branch office human teams are being, and indeed will be, to a greater or lesser extent, reduced in number compared with the past, and will dedicate less time to back-of-the-office or administrative tasks, and will become more specialized and trained in providing specific attention to different customer segments (personal banking, small business, individuals etc.) Furthermore, they will have a more commercial profile, and will be more dedicated to customers advise tasks, which is the real added value that said customers can positively perceive and appreciate, with respect to other on-line channels and above all, with respect to other competitive entities (Aburto Fernardo, 2009).

In this respect, banks will have to improve staff capabilities, to recruit and train the right staff for each channel. They should change their staff culture and to improve the communication techniques and contact strategies. All banking officers should become sales oriented persons.

One lesson that has emerged from the crisis is the importance of the customer experience. The financial crisis and its aftermath has caused consumer to think differently about their finances and seek help to regain their footings. They are more concerned today about rebuilding savings, reducing debts levels and affording retirement. The question is, how will these altered consumer attitudes and concerns impact the branch channel? (Stein, 2010).

How can the branch help to boost customer satisfaction and loyalty? They need to keep stay in touch with their customers by offering a service that is convenient, trustworthy and innovative. The latest technology (e.g. video conferencing, touch screens and interactive television) can be used to attract customers and to enhance their banking experience. The branch should evolve so that it provides customers with a powerful and attractive alternative to the many new channels that are appearing.

Branches play an important role in multi-channelling. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which channels, how to mix and integrate the channels and how to support the channels. To do this, they need to understand customer behaviour, channels performance and the channel’s operating cost. However, managing and integrating the distribution channels within an increasingly complex and challenging operating environment has become very difficult.

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