

The Future

OF BANK AND BUILDING SOCIETY BRANCHES IN THE UK

A report by David Black of DJB Research commissioned by The Nottingham Building Society

INTRODUCTION

According to Which? some 670 bank branches have closed this year or been announced to close. These closures can be devastating for local communities, as well as for millions of customers.

Given the impact branch closures have, I believe it's time to have a nationwide debate on this issue, and to discuss what the future of branches should be, and the role they can play in addressing the needs of customers and the communities they serve.

This report has been commissioned by The Nottingham Building Society, who over the last five years has doubled their branch network to 67 across 11 counties.

A number of The Nottingham branches were taken over from other banks and building societies that had closed.

BRANCH CLOSURES – HOW MANY MORE

Banks and building societies in Britain have been shutting branches at a rate of around 300 per year since 1989 (1), but the level of closures has been accelerating as more people use mobile banking. Indeed, a recent study revealed that 52% of all consumer transactions are now done online, making it the primary method of banking. The figure was 33% two years earlier. (2)

According to research from Which? some 689 branches closed in 2015, 630 shut in 2016 and 879 in 2017. The consultancy firm CACI predicts that in the near future, 600 branches can "deliver effective nationwide customer coverage" for each major bank across the UK in five years and given that some of them have more than this, it is highly likely that more branches will close. I estimate that if the five largest banks adopted this strategy, up to 2,400 branches could be at risk of closing, and that this could put up to 12,000 branch-based jobs at risk.

Indeed, new research (3) conducted for this report by The Nottingham reveals that 29% of people expect the rate of branch closures to increase 'dramatically' over the next three years, and 49% think there will be a 'slight' increase. Only 3% of people think the rate of closures will reduce.

THE IMPACT OF BRANCH OF CLOSURES

The UK now has around 8,000 bank branches (1), compared to what The University of Nottingham estimated to be approximately 17,831 in 1989. There are now an estimated 1,500 previously banked and now branchless towns in the UK. (4)

New research (3) from The Nottingham reveals the widespread impact of these closures on individuals, local businesses and communities.

**300 CLOSURES
PER YEAR
SINCE 1989⁽¹⁾**

NO. BRANCH
CLOSURES



**UP TO
12,000 BRANCH-BASED
JOBS AT RISK**

CONSUMERS

The Nottingham's research (3) reveals that 23% of people claim to have stopped using branches over the past five years because their local one closed and there were no others in the area to use.

One in four people (25%) believe if their branch closed, they could suffer from 'financial exclusion' because they would find it harder to access financial advice and financial services products.

Some 23% say they like to use branches because it is face-to-face, and 22% say it's because of the friendly service. Some 5% say they use branches because they don't like online banking or can't do it, and a further 4% say it's because they have no internet connection, or a bad connection.

Of those people who still visit bank and building society branches, 46% say they do so as part of their trip into town when they do several tasks including shopping. Indeed, 36% of people who use branches said that if they closed, they would visit the towns or centre where they were based less. Some 29% said they would take on average one less trip a month to the town or centre where the branch was based, and 30% said they would take two fewer trips. However, some 15% of people who currently use branches think they would make five or more fewer trips every month.

LOCAL BUSINESSES

Of 100 owners/recent owners of consumer facing businesses with a physical presence interviewed for this report (5), 33 said that bank and building society branch closures had a negative impact on their business due to the fall in the number of people visiting their area. 12 said their annual revenue is down by over 10% because of this, and a further 11 (33%) think it is down by between 5% and 10%.

With more branches expected to close, 31% of business owners interviewed said that this could mean they may become an online business only between now and 2023. Some 15% said they may have to move to a different location and the same number said they would have to reduce their workforce. Some 4% think more branch closures could mean that they will have to close their business.

29 of those interviewed had closed their business over the past five years because of falling sales, and seven of them said that branch closures had contributed to their business failing.

BRANCH STRATEGIES – | WHAT CHANGES NEED TO BE MADE?

The Nottingham's research reveals that 90% of people feel there is still a key role for branches to play, but their role needs to be 'reinvented'. Only 5% of people interviewed feel branches have no future.

One in four people (25%) think that if their local bank or building society branch closed, they would suffer from 'financial exclusion' as they would have less access to advice and financial products and services. Of those people who currently claim to suffer from this, 40% believe that their local bank or building society branch closing contributed to this.

When it comes to what type of products and services people would be happy to use from branches, The Nottingham's research reveals 53% would use branch-based savings accounts, followed by 32% who would use independent financial advice. Just over one in five (22%) said that they would be happy to use a branch-based whole of market mortgage advice service and 9% would use a local estate agency service based in bank and building society branches.

The type of services offered through branches will also have a massive impact on the size and physical presence of the branch. Those banks and building societies looking to reduce their range of services could still offer a branch service, but in a different format than today.

'Drive through' banking has been talked about where local branches are replaced with high-tech virtual banks with video tellers.

Customers could potentially open an account, request an overdraft, or even apply for a mortgage from their vehicle! Drive-through banks already exist in France, Germany and the US where they are relatively commonplace.

Some existing branches could be made smaller, no longer have cashiers and have coffee shops fitted in them to encourage foot fall. These stripped-down branches will no longer have traditional counters where you pay in cheques and manage your savings account. This will be replaced by smaller 'convenience supermarket style' branches, where customers serve themselves using machines.

Mobile branch banking services are also expected to be more widely used. Here, vehicles are used to visit primarily rural and semi-rural communities to accept deposits, make cash withdrawals, pay bills and have on-board customer phone facility to contact central areas to ask about specific products and services.

**90% OF PEOPLE
FEEL THERE IS STILL A
KEY ROLE
FOR BRANCHES TO PLAY**



**1 in 4
PEOPLE**  **THINK THAT IF THEIR LOCAL BANK
OR BUILDING SOCIETY BRANCH
CLOSED, THEY WOULD
SUFFER FROM 'FINANCIAL EXCLUSION'**

CONCLUSION

There is little doubt that more bank and building society branches will close – this is inevitable as the way people manage their money is changing. However, the extent to which they are closing could be dramatically reduced if branches took on new services and approaches. For example, The Nottingham's research for this report shows they can play a huge role in addressing the growing advice and savings gap. Also, as some main branches close, new transaction only, drive through or mobile branches will increase in number.

All banks and building societies with branches need to urgently review their strategy for them. Where they plan future closures, they need to ask themselves again could some of these be avoided if their branch proposition expanded on the range of services they offer.

For those closing, banks and building societies need to be clear on how they will service the needs of customers who used those branches and wanted them to remain open. Not all of them will want to go online.

ABOUT DAVID BLACK

David has over 25 years' experience of research, analysis and consultancy in the financial services industry, with an in-depth knowledge of retail banking products and markets. David was a former banking insight analyst at the research companies Consumer Intelligence and Defaqto. He is a frequent and established commentator on the retail banking and financial services sector in the national, digital and broadcast media.

ABOUT THE NOTTINGHAM

The Nottingham is an award-winning building society and estate agency operating online and via its network, spanning 67 branches across 11 counties. The eighth largest building society in the UK by assets, with the fifth biggest branch presence, The Nottingham offers a broad range of building society services such as mortgages and savings as well as independent financial planning, whole-of-market mortgage advice and local estate agency services.

Founded in 1849, The Nottingham is a mutual building society owned by its members with a long and proud history of offering financial support and advice to local communities. Through its Doing Good Together programme, the Society has donated over £800,000 to help communities in its heartland prosper. Over the past 12 months, The Nottingham has opened seven new branches and now has 67 branches in its network, more than double the number it had in 2012 (32). Many of its new branches had been closed by other banks and building societies. Some of these have now become amongst The Nottingham's most successful branches thanks to its unique model of offering a much wider range of services 'all-under-one-roof'.

NOTES

⁽¹⁾ Reuters: <https://uk.reuters.com/article/uk-britain-banks-branches/british-banks-set-to-close-record-762-branches-this-year-idUKKCN1B31AY>

⁽²⁾ UBS survey published January 2018

⁽³⁾ 1,079 people were interviewed online in March 2018 by the research company Consumer Intelligence. They represented the demographic profile of the UK

⁽⁴⁾ Campaign for Community Banking Services 'Branch Network Reduction: 2015 Report'

⁽⁵⁾ 100 shop owners were interviewed online between April 5th and 20th 2018 by independent research company Consumer Intelligence