THE BANKING AGENCY OF THE FUTURE

Ph.D. Professor, Marius GUST
"Constantin Brâncoveanu" University of Piteşti
E-mail: mariusgust@yahoo.com

Abstract: *For many banks, the closure of agencies has been, in recent years, a coordinated development strategy, because their objectives are to reduce costs and the number of clients visiting their branch. The increase in alternative payment methods and decline in cash use means that there is little need to visit the bank for transactions. But people still like to visit a banking agency, though less frequently than usual and for other purposes. In today's digital age, in addition to virtual experiences, people also want physical experiences, and visiting a branch may be more appropriate for some clients and for certain services. Clients tend to visit an agency to learn more about banking products and services, such as mortgage loans or more complex investment products, such as pension plans, because they want to receive financial advice. Although most clients start the journey online to find the financial products they need, many of these trips are concluded and completed at the traditional banking agency. Thus, for many banks, the traditional branch remains a crucial point in the relationship with clients, the place of manifestation of its brand/image and all that it represents. Although branch closures have been a major issue in recent years, many banks - including new ones - are opening branches, while others are turning branches into counselling agencies. If the bank branch has outlived its usefulness, why do some banks open new ones while others retain theirs, even transformed. Banks that dispense with their branch networks could be endangering their future.*

Keywords: *bank, banking agency, branch closures, digital economy.*
JEL Classification: *G21.*

1. Introduction

Traditionally, banks were accessed by clients directly, they had direct contact with the bank employee, face to face, through the territorial, physical network, formed by branches and, in particular, the numerous agencies, purely operational, of larger or smaller size which had widespread branches, up to neighbourhood or even neighbourhood street level.

But in recent years, banking systems are downsizing almost everywhere in the world, thousands of agencies are disappearing, especially small neighbourhood agencies.

From here, a legitimate first question. Why do banks resort to downsizing their network, why do they close branches that were once places where banks sold their products and made a profit? There are several causes to explore:

- are banking operations in regress, that is to say does the public no longer need banking products;

- maybe new companies have entered the market selling products similar to banks', but cheaper and more adapted to clients' needs of financial products;

- maybe a significant part of their clientele no longer feels it necessary to come to banking agencies, they are too busy, they have found alternatives to the traditional, physical bank counter, which are much more convenient for them;

- maybe banks want fewer customers in physical agencies, want to get rid of the expensive and rigid territorial network, when banking crises appear, and banking operations drop. So they created alternatives to the traditional counter, moved it to clients' living rooms or pockets.

A second legitimate question is regarding the future of the banking agency. Will the traditional banking agency disappear, in the sense that the on-going downsizing will continue, until the last physical banking agency in the near or distant future will close its doors? Or will the process stop somewhere at 50%, 33% of the banking network?

But if we look a little at the physiognomy, the architecture, the environment of the banking agency we will observe a terrible dynamism. Thirty years ago there were still high walls in the physical banking agency; the client had to stand on tiptoes to speak with the bank employee. But with the fall of the Berlin Wall, banks came to understand that they must demolish the walls between them and clients, invite them into comfortable armchairs, treat them to coffee, bring their TV program to the branch, so that clients no longer leave the agency and make use of so many banking products that they expend their entire salary there. Returning to the present let us remember that a short time ago I entered a bank that, although operational, had no bank employees, but a robot, sister of Alexia and Siri, following me since entering, answering any questions with competence, kindness, and helping solve any difficulties accessing banking services through the many devices in the bank. Thus another question, if the bank will remain and not be shut down, what will the new banking agency of the future look like? Will it be informational, a gadget or, somehow, SOMETHING ELSE.

2. Downsizing of the banking network and staff

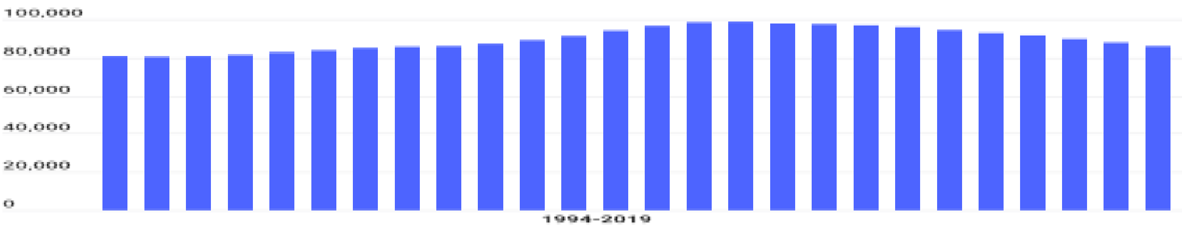
Traditionally, the distribution of banking products to clients was carried out through a network of physical offices (branches and agencies) and their staff, who were increasingly transforming from bank employees, initially, with precise tasks, into financial consultants and, later, sales agents. Interestingly, although ATMs appeared on the market, presented in the literature, but also by the practitioners in the field, as truly automatic bank employees, the network of agencies continued to grow until the financial crisis of 2007-2008.

Starting in 2007 (Garcia, 2019), the beginning year of the last financial crisis, we witness a strong downsizing of the banking network, a process observed both in the US, where the downsizing amounts to about 15% (figure no. 1), but even more prominently in Europe, exceeding 25% at European Union level (figure no. 3). Naturally, the process is accompanied by a reduction in banking staff. Thus, if in the US the reduction process after the crisis, seems to have stabilized in recent years, at pre-crisis values, at somewhere around 1.93 million employees (figure no. 2), in the European Union the reduction in banking staff continues, from about 3.1 million, to less than 2.7 million employees (figure no. 4).

In addition, the process appears to be global or at least supranational, the best example being in European countries (EBF, 2020), where all states are downsizing the banking network and 20 out of 28 countries are registering reductions in banking staff (ERCB), 2019), and the remaining 8, either stability or growth, but starting from a low staff base (Table no. 1). The same process, of equal magnitude, is registered in Romania (Table no. 2), where the banking network downsized by a third in 10 years, and the staff, by a quarter.

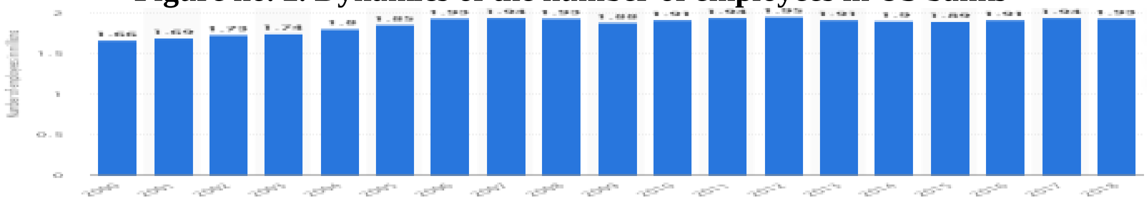
Therefore, why is the banking network downsizing and banks' sales force dropping and why is the triggering factor the financial crisis.

Figure no. 1. Dynamics of the number of branches and agencies in the USA



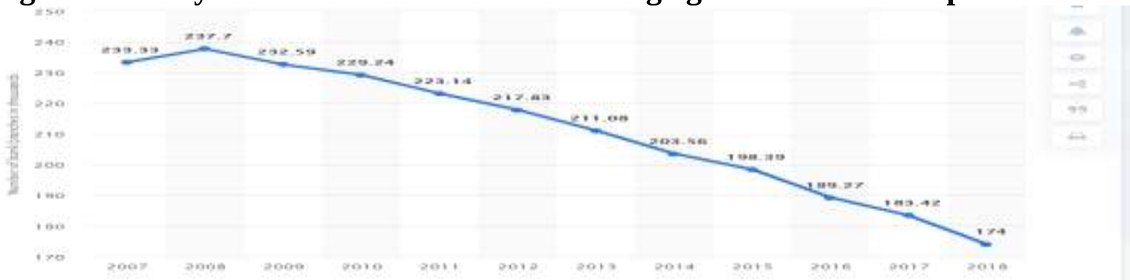
Source: https://www.bankrate.com/banking/most-popular-bank-in-each-state/

Figure no. 2. Dynamics of the number of employees in US banks



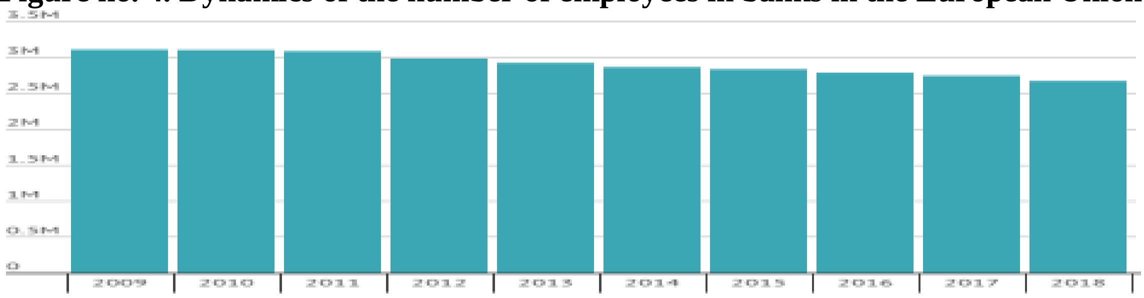
Source: https://www.statista.com/

Figure no. 3. Dynamics of the number of banking agencies in the European Union



Source: https://www.statista.com/

Figure no. 4. Dynamics of the number of employees in banks in the European Union



Source: https://www.ebf.eu/

I consider that the restructuring of the banking network can be explained through, in 2007, banks' need for profit against a backdrop of fewer operations caused by the crisis. Faced with serious management problems, with significant losses generated by investments in securities and loans, which turned into nonperforming assets, but also with a reduced demand for banking products, banks began to downsize the network and, consequently, the personnel, particularly among those with negative or low returns. The problem is that after the crisis, bank management noticed that this reduction had no major consequences on the bank's operations and profits, returning to acceptable levels, quite quickly. And, in my opinion, they realized something else. That they could shut down many critical profit agencies and branches, because clients were no longer the same. Many accessed banks from their computers or phones.

Table no. 1. Dynamics and number of employees in EU banks

	Number of local units (branches)					Number of employees of domestic credit institutions				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Belgium	3,607	3,508	3,347	3,195	2,983	56,666	55,774	54,657	53,059	51,740
Bulgaria	3,720	3,684	2,936	3,060	3,142	31,715	30,657	30,352	30,070	29,991
Czech Republic	2,144	2,095	1,977	1,868	1,868	38,791	38,835	39,654	39,990	40,244
Denmark	1,186	1,113	995	1,007	958	37,201	40,748	41,123	42,240	41,737
Germany	35,284	34,001	31,974	30,072	27,887	649,900	637,338	619,621	597,319	564,935
Estonia	122	107	99	95	91	4,860	4,979	4,924	4,920	5,317
Ireland	994	1,029	1,048	916	891	28,871	27,091	26,811	26,891	27,940
Greece	2,688	2,547	2,331	2,168	1,978	45,654	46,095	42,647	41,707	39,382
Croatia	1,194	1,175	1,142	1,112	1,035	21,190	20,914	20,607	20,434	20,028
Spain	31,999	31,087	28,807	27,480	26,166	201,656	196,556	186,982	183,053	179,055
France	37,623	37,567	37,261	37,209	36,519	408,726	406,701	410,925	409,925	408,941
Italy	30,723	30,258	29,039	27,374	25,454	299,684	298,473	295,305	281,928	274,056
Cyprus	615	563	544	460	386	10,956	10,983	10,663	10,632	8,946
Latvia	319	276	261	249	218	9,374	9,401	8,803	8,492	7,345
Lithuania	610	558	506	480	406	8,952	8,434	8,643	8,922	9,165
Luxembourg	221	213	230	217	210	25,972	25,945	26,062	26,149	26,317
Hungary	3,112	2,812	2,691	2,418	2,235	39,456	38,205	38,751	38,885	39,434
Malta	110	109	105	102	97	4,426	4,584	4,747	4,924	5,044
Netherlands	1,854	1,764	1,674	1,619	1,489	94,000	90,137	82,836	75,215	72,199
Austria	4,247	4,094	3,934	3,765	3,631	74,110	73,315	72,957	71,927	71,798
Poland	14,117	14,307	13,647	13,855	12,645	175,972	175,151	173,043	168,800	166,011
Portugal	5,938	5,453	5,323	5,001	4,169	53,888	50,687	51,062	50,358	50,819
Romania	5,304	4,947	4,798	4,596	4,382	57,732	55,928	55,396	55,044	53,737
Slovenia	592	589	583	560	532	10,682	10,444	10,055	9,844	9,683
Slovakia	1,277	1,291	1,293	1,233	1,174	18,656	18,900	19,788	18,879	19,539
Finland	1,188	1,051	1,039	970	858	22,019	21,806	21,965	20,999	20,796
Sweden	2,027	1,718	1,734	1,978	1,453	54,644	54,319	55,260	70,877	52,255
United Kingdom	10,760	.	.	.	.	401,256	398,606	387,571	367,044	370,083
Euro area	159,401	156,065	149,398	143,165	135,139	2,020,100	1,997,643	1,959,453	1,905,143	1,853,017
EU	203,575	.	.	.	.	2,887,009	2,851,006	2,801,210	2,738,527	2,666,537

Source: https://www.ecb.europa.eu/pub/pdf/annex/ecb~10913d25c1.pr190604_ssi_table.pdf

Table no. 2. Dynamics and number of employees in banks in Romania

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Banks	3.387	3.031	3.533	4.470	6.340	7.375	6.425	6.170	6.046	5.723	5.492	5.304	4.947	4.798	4.596	4.382
Employees – thousand people	466	497	525	585	660	716	679	668	658	618	586	577	559	554	550	537

Source: https://www.bnr.ro

A report entitled *The future of the bank branch is in trouble - here's why* (Heggestuen, 2015), which analyzes trends in the banking industry, believes that the traditional, banks' physical branch/agency seems to be outdated. It has not died yet, but the end seems to be approaching, because the improvement of online channels, in parallel with the decrease of visits to the branch and the increase in the cost of transactions carried out in branches lead to frequent branch closures (Cazan, 2016).

The factors that determine the downsizing of the banking network are the reduction in operating costs, mergers that take place within the banking industry, the competition between banks and the increase in alternative means of accessing banking services. It is also noticeable that the closure of traditional branches is more widespread in poorer areas, especially rural, where the economic value of transactions is low, but where the impact on non-mobile customers is much higher.

However, the closure of branches also leads to a decrease in the number of ATMs, as many are located in the perimeter around the closed banking agencies, although in some cases the decrease in the number of ATMs is justified by the reduction in cash withdrawals.

3. The importance of the traditional banking agency

Although closing branches is a business decision that can make sense for several reasons, banks should not give up on branches altogether.

Srinivas, Wadhwani, 2019, consider that the traditional counter remains important because it generates greater satisfaction for clients compared to services through digital channels. They consider that due to the typical complexity and/or urgency of these operations, account opening and problem solving are two critical operations that customers are likely to perform through channels that involve human contact - usually branches and call agencies. Also, the banking clientele considers the physical branch and call agencies indispensable for complaints.

At the same time, clients can experience high satisfaction if a question at the agency has been dealt with effectively or if they have had a successful meeting with the branch manager, which exceeds any satisfaction paying bills online or through a mobile application.

Another impact of the traditional branch is that they are a symbol of trust. And, given that the issue of money is complex and personal, trust is important when it comes to deposit operations and attracting public savings, the traditional branch is still considered the typical location for opening bank deposits.

It must not be omitted that a physical agency is synonymous with brand image and helps maintain customer relationships.

Finally, another advantage for the physical network of bank counters is that they also offer easy and universal access to all banking services and products. Therefore, there are still bank clients who appreciate the proximity of branches and ATMs and consider it a determinant in choosing their bank. Moreover, over 4 out of 10 respondents visit a branch at least once a month.

Digital banking simplifies the banking experience in branches, so many customers may not understand much of the banking activity performed in a traditional branch, may consider it too complex, too bureaucratic, which is why banks should continue to focus on training workforce from banking agencies, to ensure high quality interactions with clients and to create positive interactions that remain in clients' minds. A 2017 study on account opening highlighted the need for "attentive and empathetic human interaction by senior staff during the account opening process."

One third of bank clients seem to appreciate the mix of human intervention and technology and would be open to using branches more if banks offered some digital services in agencies to provide them with greater comfort. The same study mentioned among the digital services that would appreciate, were they to be found in branches: extending service hours through virtual remote services with a representative, offering digital self-service screens with the help of a representative, and the possibility to program a virtual video meeting with a bank employee. Interestingly, all of these options focus on how the digital can lead to strong remote interactions with a bank representative. Note that although these approaches are not new, they are not yet widespread, although more banks are beginning to experiment in this area.

HSBC, for example, has introduced a robot - Pepper - to its Fifth Avenue subsidiary in Manhattan, which is scheduled to answer basic customer questions and direct them to the appropriate advisor/staff in the branch, just as Romanian banks have begun to include robots with exotic names in their call agency services: Ana, Sofia, etc. The idea is that these robots do not replace human labour, but have been designed to make the banking experience more attractive and for an optimal rational allocation of services.

In many cases the banking agency is and will be the final destination for a client's journey that began online or on the mobile phone (Proctor, 2019). Thus, the banking agency ensures the connection between the physical client and the client's physical and digital financing and the digital financial world, as it is those banks that offer an integrated, personalized experience that are considered successful.

The banking agency has special relevance for elderly population, who are less technologically sophisticated. This has been one of the factors keeping traditional branches and their sales potential alive, albeit at lower levels, because the financial needs of this demographic are declining, while the new generations, familiar with new technologies, by relying on digital banking services reduce the sales volume of branches.

Banking agencies are still important because they allow for the testing of new ideas for banking products and services, new devices. The traditional bank branch was almost invariably identical, counters for cash transactions (national currency or otherwise), counters for advising individuals and counters for companies, colour and furniture made the difference. Today the counters for cash operations are gone, they have been replaced by more or less separate areas where ATMs are installed, automatic counters, computers, telephones with direct connection to the bank's call agency, from where payments, cash deposits, cash-outs, etc. are performed, and the area of the traditional branch has shrunk, being populated with customer advisory offices, more or less depending on the size of the agency. Thus, the new branch tests the functionality of new devices, but also the optimal combination of devices and banking staff. It can be said that the new bank branch has the role of testing the withdrawal of staffed bank branches, while others are locations with staff that test the attractiveness of certain segments of customers or banking products.

A quarter of banks have plans to expand their physical branches, and the most ambitious seem to be medium-sized and small banks, while large banks are considering reducing their territorial branch network (Stephans, 2018). Thus, many banks still believe that branches are the best way to attract and retain customers. Small and medium banks realize that before you can digitize your clientele, you must first have it, and its training is also done through the traditional banking agency with walls and mortar. The fact that large banks are not only planning to close branches, but also to set up new ones is a strong signal that today's customer is still attracted to digital banking alternatives, but many still want to be advised by banking staff and even take into account their advice. More specifically, in order to remain relevant, banks should not only open branches, but should reinvent their traditional branch, invest in new strategies and adopt innovative technologies to make conversation a top priority.

4. Design of new banking agencies

The current model of a traditional agency, in existence for about 15-30 years, had efficiency as its objective, the emphasis being placed on transactions. In the last 2-3 decades the working area a traditional banking agency had allocated for transactions was about 70% of its surface, where there were cashiers or bank officials with computers and whose mission was to carry out transactions at the request of clients, and the remaining 30% of the working surface was reserved for self-service, with devices through which the client could also perform the desired operations.

The banking agency of the future redesigns this space and, in some cases, decreases and simplifies it significantly. From the entrance, the bank client is greeted by equipment and devices serving the role of universal bank employee, through which they can access the services that meet their financial needs. This space is open to customers permanently, 24 hours a day, 7 days a week. The bank staff in new branches is reduced to a minimum and in some of them is non-existent, and the role is to advise and help them access the services they need.

To compete with non-traditional banking service providers, branches need to become smaller, more automated and offer a variety of technologies. Banks must harness the power of digital technologies to provide new branch services, reduce branch management costs, branch integration, remote assistance, while ensuring that the branch retains the brand's image.

The typology of the new branch is different, being defined by its clientele. Thus, a bank could opt for a smaller city, without employers, for a agency equipped exclusively with equipment, but with telephone communication channels with advisors located in other locations or in the case of senior retirement communities, the new branch should be positioned in a mall and should definitely have one or two employees for customer advice or, in the case of a heavily populated suburb, the bank branch should be closer to the banking agency, but with new equipment, where those in a hurry can access the banking services they need, but also staff to advise in choosing the right product. In the latter case, the banking staff will have at their disposal for consulting private meeting rooms and waiting areas customized based on the brand of the bank and means of information on banking products.

In branches with large transaction volumes, it is necessary to use multifunctional banking machines, where bank clients can self-serve, which can improve customer experience and reduce transaction costs, especially since they are already accustomed to self-service experiences through retailers, airlines, etc. The use of these self-service multifunctional banking machines allows bank employees to be more proactive towards their clients, and their arrangement in separate rooms, separated from each other, allows for remote assistance but also confidentiality of conversations.

It should also be noted that multifunctional ATMs, which also allow cash deposits, make it easier to manage cash, and cash recycling at device level is also a measure to reduce operational costs of the new branch.

As the equipment in a new branch becomes more sophisticated, it becomes the best place to use or test these new technologies.

Additionally, the use of multifunctional bank machines with self-service in the branch frees up time for bank employees to advise clients and focus on activities that generate higher incomes.

But the restructuring of traditional branches' activity is driven by mobile devices (smartphone, tablets, etc.) that have an impact on the so-called "open space" in new branches through their transformation into "universal bank employees".

Unlike traditional counters, with cashiers and account advisers dedicated to different operations, mobile devices turn into "super" bankers, entrusted to handle a multitude of banking activities, all through one device. Mobile devices can be used inside and outside the new branch. Outside of the bank, mobile devices allow a client to directly access the bank, their accounts, connecting directly and at the same time to the bank and the trader or service provider's server, facilitates bank-client-merchant collaboration and customer involvement. Inside, mobile devices can be used to greet the customer, to direct traffic, as well as to assist in carrying out transactions and replacing multifunctional banking machines.

The Internet of Things (IoT) can also be brought up here, it offers a multitude of options and benefits when integrated into the bank branch of the future. IoT can recognize a customer's smartphone and track its movement within the branch to provide key information about customer behaviour and patterns.

Additionally, IoT offers the possibility to deliver personalized messages and experiences through smartphones, multifunctional banking machines and digital signature.

Biometric elements visualized via IoT can be used through tablets or multifunctional banking machines to authenticate customers.

5. Conclusions

Almost everywhere in the world, banking systems are shrinking, with thousands of agencies disappearing, especially in small neighbourhoods. Thus, a legitimate first question, will the banking agency disappear or, if it remains, what will it look like.

The restructuring of the banking network was caused, in 2007, by banks' need for profit against a backdrop of fewer operations caused by the crisis. After the crisis, bank management noted that the aforementioned reduction had no major impact on bank operations and profits, these returned to acceptable levels, quite quickly. Finally, the process continued and bank executives realized that they could dispense with a lot of critical profit agencies and branches, because clients were no longer the same, many accessing banks from their computer or phone.

But the traditional bank counter will remain because it is important, as generates greater overall satisfaction than digital channels, clients experience higher satisfaction in the physical environment, when they have someone next to them, who gives them advice, gives them more information or attention, compared to the virtual environment, silent, unclear whether a choice was correct or not. Additionally, the traditional counter will also remain because it is a symbol of trust (worth remembering savings, where trust is key), because it helps maintain customer relations and, last but not least, because the physical network of bank branches offers easy and universal access to all banking services and products.

The banking agency of the future is rebuilding the physical space it occupies. It significantly reduces and simplifies the environment. On entering, the bank client is greeted by equipment and devices serving as universal bank employees, through which they can access the services that meet their financial needs. Banking staff in new branches is reduced to a minimum, and in some is non-existent, and their role is to advise and help in providing the services they need. The typology of the new branch is different, being defined by its clientele, traditional for baby boomers, technologically advanced for generations Y and Z. In agencies with large transaction volumes, it becomes necessary to use multifunctional banking machines, where clients can self-serve, which can improve customer experience and reduce transaction costs. The Internet of Things (IoT) also offers a multitude of options and benefits when integrated into the banking agency of the future. IoT can recognize a customer's smartphone and track their movement within to provide key information about their behaviour and patterns.

References

1. Cazan, R., 2016. Băncile viitorului: bancomatele vor dispărea şi totul se va face online. *Capital*. [online] Available at: <https://www.capital.ro/bancile-viitorului-bancomatele-vor-disparea-si-totul-se-va-face-online.html> [Accessed 18 April 2020].
2. European Central Bank, 2019. *Credit institutions: Number of local agencies (branches) and employees of domestic credit institutions*. EU structural financial indicators. [pdf] Available at: <https://www.ecb.europa.eu/pub/pdf/annex/ecb~10913d25c1.pr190604_ssi_table.pdf> [Accessed 18 April 2020].
3. Garcia, A.D., 2019. *These are the most popular banks in each state*. [online] Available at: <https://www.bankrate.com/banking/most-popular-bank-in-each-state/> [Accessed 18 April 2020].

4. Heggestuen, J., 2015. The future of the bank branch is in trouble — here's why. *Business Insider*. [online] Available at: <https://www.businessinsider.com/digital-disruption-of-retail-banks-2015-10> [Accessed 18 April 2020].
5. Proctor, K.,B., 2019. *Banking on the branch of the future*. White Paper, FIS Global Banking Solutions. [pdf] Available at: <https://www.fisglobal.com/-/media/fisglobal/files/pdf/white-paper/banking-on-the-branch-of-the-future-white-paper.pdf> [Accessed 18 April 2020].
6. Stephans, B., 2018. *The need for speed. Banking Industry Outlook Survey*. Perspective survey on the banking industry, KPMG. [pdf] Available at: <https://assets.kpmg/content/dam/kpmg/pdf/2016/04/banking-industry-outlook-survey.pdf> [Accessed 18 April 2020].
7. The European Banking Federation, 2020. *Structure and economic contribution of the banking sector*. [online] Available at: <https://www.ebf.eu/facts-and-figures/structure-and-economic-contribution-of-the-banking-sector/> [Accessed 18 April 2020].
8. Val Srinivas, V. and Wadhwani, R., 2019. Recognizing the value of bank branches in a digital worldFindings from the global digital banking survey. *Delloite insight*. [online] Available at: <https://www2.deloitte.com/us/en/insights/industry/financial-services/bank-branch-transformation-digital-banking.html> [Accessed 18 April 2020].