Banking customers continue inexorably to migrate many routine transactions and services to online channels. In this year’s Novantas Multi-Channel Preferences Study, we find a tipping point has been reached in new and critical areas. Many of the trends we had seen in prior years have accelerated, such as the significant shift in teller deposits to ATMs and online, or the rapid shift to online shopping that has altered the entire marketing and sales funnels for banks in the US. But there remains a committed branch-centric segment, and some activities, such as financial planning, retain strong branch-centricity. And for almost all sales and service transactions, there is now a sizable audience for direct, non-branch interaction.

In this report, we focus on key findings in four areas from this year’s survey:

1. Bank shopping has clearly shifted online, but there are important subsets of customers for whom online shopping is less desirable due to lack of experience with banking in general or with the product being shopped. These shoppers, who are often young and highly digitally-oriented, tend to rely on both recommendations from friends and families and branch visits more than they do online shopping.

2. The segment of customers, we call “Thin Branch Ready” — who rarely use branches but are nonetheless attached to them — has grown dramatically from 25% of customers in 2012, to 39% of customer today. This growth implies that high usage rates for digital banking, and the roll out of new ATMs and mobile deposit capture, and alternate payment models are eroding branch dependence. Further, banking segments cluster around banks, not demographics, meaning there are significant differences not only by class of bank but between brands.

3. While some transactions have continued to leave the branch, others remain very sticky. The rate of consumers preferring to make deposits with a teller has fallen dramatically, from 54% in 2012, to only 34% in 2014. This reflects the investments banks have made in technology and staffing changes. Other transaction types are stable: issue resolution and financial planning are key examples.

4. The affluent, however attached they may feel to the branch, do not prefer it more than others when transacting with the bank. In fact, the opposite is true. Lower income customers prefer the branch for sales and service at a rate far outstripping that of the affluent. This phenomenon has a major impact on network design.

Taken together, these results demonstrate that the major shift in customer behavior and attitude we described in our 2012 report is transforming marketing, distribution and service. Here are just two examples:

• For the growing segment of Thin Branch Ready customers, acquisition strategies will increasingly feature thinner and thinner networks, albeit with high visibility and brand presence. The growth of this segment also means more opportunities for disruptors and new entrants with limited-branching models could take hold, even as Internet-only models continue to struggle for primary banking share.

• The role of the branch in servicing is shifting, as the rate of consumers preferring the branch for account opening, issue resolution and financial advice levels off — even as deposits and withdrawals continue to shift to other channels. This means that for several consumer segments, the branch experience will be front and center precisely at the most sensitive points in the customer lifecycle.
For primary banking relationships, customer channel preference and usage plays a role from the moment a consumer begins thinking about shopping for an account. It continues to define the relationship through the purchase, processing, account usage, service items cross-selling and issue resolution. But the more that the growth of digital adoption and functionality changes channel usage across sales and service, the more things stay the same for some tasks and some customers. The constant: Throughout the customer lifecycle, more and more consumers show a strong willingness to perform routine, familiar tasks online and unfamiliar tasks with the help of the branch and friends and family.

But what is familiar to one consumer may not be to the next — e.g., when applying for a HELOC, those who have applied previously do not seek the handholding first time applicants require. Further, some tasks tend never to be familiar, particularly when there is an issue to resolve. The upshot: digital channels are nearing overwhelming share on some interactions, such as transferring funds; complementing other channels in others, such as new-to-bank checking acquisition; and to this day are largely beside the point for most consumers for certain key transactions.

Turning our perspective from transactions to the consumers that conduct them, consumers use the branch and value the branch in very different ways, but these differences tend not to depend on age or income. Some banks are particularly adept at acquiring or creating given segments, but it is easy to mistake the role of the branch in these acquisition strategies. In particular, more affluent customers may use branches from time to time and feel attached to them, but they are in fact less likely to want to use a branch for any given sales or service task than are lower income consumers.

The 2014 edition of the Novantas Multi-Channel Preferences Study shows that some trends identified by this study series over the years, such as deposits leaving the branch, have accelerated, while others have flattened. The upshot: the branch, in some shape or form, remains vital to new primary checking acquisition, but what is now the optimal branch count and branch experience is already far different than what most national and regional banks offer today.

We cover in this research report four salient topics from our in-depth consumer survey:
1. Bank Shopping Behavior
2. Consumer Channel Segmentation
3. Banking Transaction Channel Trends
4. Income and Channel Preference

For additional data and implications on other topics from this research, please contact us.
Over the past three years, shopping online has been the most frequently used method among consumers switching primary checking accounts, but visiting the branch has been the most frequently used shopping method among those opening a checking account for the first time. One of the early findings of the research is this link between prior experience of banking services and higher online usage: customers with more experience of making banking product choices were more likely to prefer online to branch interactions. To understand the links between confidence and online usage, we divided Recent Checking Purchasers (opened current primary checking account within past three years) into Newly Banked (those opening their first checking account) and Switchers (those moving banks).

Across age, income and prior banking experience, Recent Checking Purchasers tended to take advantage of multiple methods of shopping for an account, but Switchers were 18% more likely to have shopped online than in a branch, while the Newly Banked were 36% more likely to shop by visiting a branch. Moreover, the shopping methods Recent Checking Purchasers found most helpful varied considerably: 33% of Switchers cited online shopping as most helpful, more often than any other method; for the Newly Banked, the branch was most often the most valuable method, and obtaining recommendations the second most; only 21% cited online shopping as the most helpful method.

Reinforcing the picture of the checking switcher as more self-directed, Switchers were not only less likely to seek a recommendation from friends and family than the Newly Banked, they were less likely to act on a recommendation if they did seek one. All told, only 17% of Switchers cited recommendations as the most helpful shopping method, as compared to 24% of the Newly Banked.

In short, those experienced with purchasing and maintaining checking accounts tended to trust their ability to navigate online resources to complete the shopping task in a self-directed fashion. This pattern repeats as consumers shop for other products and for routine self-service tasks. And in new-to-bank checking acquisition it produces a counter-intuitive outcome: the youngest consumers are not the most digitally focused. Among Recent Checking Purchasers, 18–24 year-olds have been less likely to shop online when shopping for a new checking account than to visit a branch, and less likely to visit a branch than to obtain a recommendation. For the 35–44 year-old age group, the reverse has been true, and emphatically so: they are in fact 60% more likely to have shopped online than shopped by visiting a branch.

Whether this pattern is driven by the banks making online shopping hard, opaque and complex, or by the nature of self-confidence in driving channel choice, it points at the interesting phenomenon that less-valuable customers (younger, earlier life stage) may be more branch-centric in purchase terms than all others, and would potentially turn the “affluent branch” logic upside down.
2. CONSUMER CHANNEL SEGMENTATION

Thin Branch Ready customers are growing rapidly; demographics alone won’t help banks find them in the market or the customer base

Branches — beyond the role they play in shopping (for some) and purchase fulfillment (for most) — play a role in shaping the value proposition of the bank and in servicing customers day to day. But when it comes to predicting which consumers will use and value the branch, age becomes especially unhelpful, as does income. Apart from the small Internet-Ready segment, the true differences are attitudinal, i.e. segments of similar demographic backgrounds use and think about branches very differently. This conclusion is consistent with our earlier 2011–2012 survey results which found a similar demographic mix.

To segment checking customers, Novantas scored each panelist on two axes: Branch Dependence and Branch Attachment.1 We then divided panelists into five segments: The Internet Ready (rarely use branch, no attachment), the Thin Branch Ready (rarely use, modest attachment), the Innovation Seeker, the Mass Market and the Branch Traditionalist.

What we find is even the vast majority of consumers who no longer depend much on the branch are still attached to it. While those consumers who use the branch more often and for a wider range of activities display greater attachment to the branch, a large swath of consumers use the branch very little and yet show great loyalty, tending to agree with statements affirming a valuable role for the branch. Even as they have been abandoning it in practice, consumers tend to believe in the branch in principle.

Further, we found that branch dependence and attachment patterns are not results of age or income, they will not understand how and why their customers use the branch.

Among the five segments, the Thin Branch Ready consumer predominates. Fully 39% of checking consumers are now Thin Branch Ready, up from 25% in 2012. Thin Branch Ready consumers visit the branch rarely — 91% visit less than once a month, but they agree at least somewhat that the branch legitimizes the bank, is a valuable resource, or is at least something they want in a bank they use.

Unfortunately for banks, this conundrum of a large segment of consumers demanding their bank maintain expensive but rarely used facilities represents the “opportunity” in network rationalization. Yes, there are those who have torn themselves away from branches in both thought and deed, or never come under the branch’s spell to begin with. But these consumers — the Internet Ready — account for only 7% of checking consumers, up from 6% two years ago.

Also rare are checking consumers heavily dependent on the branch who don’t feel attached to the branch. Only 10% of checking consumers qualify as Innovation Seekers: using the branch but not feeling attached to it. Dependence leads to Attachment.

After Thin Branch Ready, the second largest segment is the Mass Market. Accounting for 29% of checking consumers, the Mass Market segment uses branches more than the Thin Branch Ready and expresses slightly higher average attachment to the branch. Almost 3 of 4 Mass Market consumers visit the branch at least once a month. And despite valuing the branch about as much as do Thin Branch Ready consumers, Mass Market consumers are much more likely to want to use the branch for particular tasks.

For instance, when asked the channel in which they’d prefer to request a new ATM/debit card, 45% of Mass Market consumers identified

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1 To measure Dependence, Novantas examined how often each customer visits the branch and for which, if any, tasks the customer tends to use the branch. To measure Attachment, Novantas examined the extent to which the customer agreed or disagreed with statements about the value of the branch in a primary banking relationship.
"Banking Segments cluster around banks more than age or income ranges; channel preferences may now be directly linked to distinctive bank Value Preferences."

Apart from the small Internet-Ready Segment, income is not a strong predictor of branch dependence and attachment.
Even with differences in behavior and attitudes regarding the branch, checking consumers as a whole use the branch for fewer transactions every year. But this trend is far from constant across transaction types, and it comes down to consumer preference.

Deposits are rapidly leaving the branch, driven by investments in technology, cuts in tellers, and changing payments patterns that have led consumers to find alternate channels more convenient. In 2006, 70% of checking consumers said they’d prefer to make deposits with a teller in the branch. As of 2012, that figure had dropped to 54%, but now it’s dropping like a stone: As of 2014 it now stands at 35%, representing a 50% reduction in preference for live tellers in eight years. Clearly, Mobile Deposit Capture (MDC) and image-enabled ATMs have captured consumers’ imaginations. In fact, Novantas analysis of tens of thousands of live checking shoppers through Bank Choice Monitor shows the absence of MDC now disqualifies a bank from consideration by a sizable number of consumers. Thin Network Ready customers are starting to recognize, and seek out, the technology that allows them to stay out of the branch.

But when it comes to resolving an issue, the rate of preference for the branch is down only 30% in eight years, from 53% to 36%. More strikingly, it hasn’t budged more than a percentage point since 2011. Over the years more and more consumers have expressed preference for the online channel when it comes to issue resolution, but lately this trend hasn’t been hitting the branch, it’s been hitting the phone channel. As recently as 2011, only 13% of consumers voiced a preference to resolve issues over the web or mobile; as of 2014 that figure is 23%, even as preference for the branch has remained unchanged. In 2011 the phone channel was the most popular channel for issue resolution, with 49% preferring it. Now it comes in at 34%, making it second place to, of all things, the lowly branch.

With live chat, Twitter and authenticated email customer service often available, consumers who don’t require in-person intervention now feel well served. The challenge for moving more issue resolution volume out of the branch now comes down to creating an online environment that appeals to those that want a more personal touch. Video chat, identification of a dedicated representative to see an issue through, and online branch appointment setting that might subtly redirect some inquiries are all potential approaches to migrating the remaining in-branch issue resolution traffic, but preference for resolving issues in the branch has been holding steady in the face of digital innovation, suggesting a role for the branch for some time to come.

Looked at another way, branches have gone from being significantly more preferred for making deposits than for resolving issues, to equally preferred for both. It’s not just overall activity in the branch that’s changing; it’s the mix and the role: Sales and problem resolution, not withdrawing, depositing or transferring funds.

### 3. BANKING TRANSACTION CHANNEL TRENDS

*While some transactions have left the branch, the ones that remain are staying put*

<table>
<thead>
<tr>
<th>Channel Preferences for Resolving an Issue with an Account (% of Respondents)</th>
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<tbody>
<tr>
<td>2011</td>
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<tr>
<td>Over the phone</td>
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<tr>
<td>At the branch</td>
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<tr>
<td>Online/mobile</td>
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<tr>
<td>Other</td>
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<tr>
<td>49%</td>
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<td>36%</td>
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<td>2012</td>
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<tr>
<td>Over the phone</td>
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<td>At the branch</td>
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<tr>
<td>Online/mobile</td>
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<td>Other</td>
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<tr>
<td>42%</td>
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<td>35%</td>
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<td>2014</td>
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<td>Over the phone</td>
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<td>At the branch</td>
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<td>Online/mobile</td>
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<tr>
<td>Other</td>
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<td>34%</td>
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The growth in preference for using the digital channel when resolving issues comes at the expense of the phone channel, not the branch.
As the potential destination in both organic and stimulated transaction migration, the digital channel is sensitive to income. Distinct from whether consumers use the branch for a transaction type today, or whether they believe branches to be integral to the bank’s value, there’s the simple question: Given a choice, how would you prefer to do a given kind of transaction? We’ve already seen how the answer depends on the kind of transaction. The added wrinkle is whether or not the preferred channel is digital depends on income as well in a way that current behavior does not.

Take replacing an ATM/debit card. Thirty-two percent of those with $25K–$50K household income (HHI) report they tend to do this transaction at the branch and 9% report they do this through online/mobile banking (another 37% didn’t recall ever replacing an ATM/debit card). It turns out that today, those in the $150K–$250K HHI range show similar channel distribution: 26% percent of $150K–$250K HHI consumers report using the branch most often and 13% report using online/mobile banking most often.

But ask them how they’d prefer to do the task and the paths diverge: Those with $25K–$50K HHI nominate the branch 40% of the time and digital banking only 26% of the time. For those with $150K–$250K HHI, digital banking outpoints the branch 41% to 26%.

The same pattern shows up when checking customers think about how they’d prefer to open a new account with the bank. Both groups were much more likely to have opened a new account with their bank in the branch than using digital banking. But fully 52% of $25K–$50K HHI consumers would prefer the branch for opening their next account with the bank, to 27% who would prefer digital banking, while for $150K–$250K HHI consumers, digital wins out over the branch 42% to 36%.

While the Internet Ready are disproportionately affluent, the affluent are largely not for the most part Internet Ready, that is, they aren’t attitudinally ready to leave the branch behind. But neither are they looking for an excuse to spend more time in the branch. For any given transaction, the affluent, taken as a whole, are less likely to prefer the branch than other consumers. A branch may help the bank brand itself with the affluent, but it will be only less and less helpful in serving them.

4. INCOME AND CHANNEL PREFERENCE

The branch is not the preferred channel for the affluent; in fact the opposite is true

As the potential destination in both organic and stimulated transaction migration, the digital channel is sensitive to income. Distinct from whether consumers use the branch for a transaction type today, or whether they believe branches to be integral to the bank’s value, there’s the simple question: Given a choice, how would you prefer to do a given kind of transaction? We’ve already seen how the answer depends on the kind of transaction. The added wrinkle is whether or not the preferred channel is digital depends on income as well in a way that current behavior does not.

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Channel Preferred to Replace an ATM/Debit Card

For common service items such as replacing an ATM/debit card, higher-income checking customers are actually more likely to prefer online/mobile banking over the branch.
Banks that want to acquire or retain a meaningful share of primary relationships still have to pay attention to branch locations and experiences. But the drain of everyday transactions from the branch is only quickening. To adapt to this continuing shift in customer preferences, banks will have to do several things, all outside the comfort of many traditional retail bankers.

- Bank marketing programs must recognize the diminished ability of branch presence to generate interest from switchers, and focus increasingly on out-of-home advertising, market-specific digital campaigns and other channels — where banks can maximize the awareness and perception of convenience generated by an additional dollar of spend.
- To win checking switchers, banks will have to drive awareness and consideration in digital channels in particular, providing sufficient decision support to sell switchers on opening online or coming into the branch, and doing more to reach experienced shoppers and the growing Thin Branch segment through alternative channels, which they now use instead of the branch when shopping.
- Banks must support shoppers as they go from digital shopping to branch fulfillment. This may mean aligning the experience and the product presentation, cutting down the length of the new customer interview and aligning incentives and attribution measurements to foster collaboration between the digital and branch channels.
- Fourth, banks must create and maintain digital banking and ATM propositions that cater to the strong consumer preference to handle routine transactions outside of the branch. Simply offering some kind of mobile banking is insufficient in an era of widely-followed app ratings. Banks have moved from touting MDC to differentiating their MDC offering on functionality, funds availability, customer experience and limits, and are differentiating their mobile experiences by enabling consumers to view their balance with a finger swipe.
Through its ongoing Multi-Channel Research program, Novantas provides insight into the ongoing shift in customer attitudes, preferences, and behaviors around the many ways one can interact with the bank, and ultimately to provide insight into what the bank channel landscape will look like in the near future. The research is conducted through an online survey provided to a panel of customers that is statistically significant across age, income, and geography. The 2014 edition updates studies conducted in 2012, 2011 and 2006 and includes data on 4,125 respondents.

The current instrument focuses on understanding customer channel behavior and preferences across a wide variety of bank interactions in service (e.g. deposits/withdrawals, issue resolution), with a focus on checking, cash management activities and sales (e.g. research, account opening) for checking, credit cards and home lending. This information is married with a variety of attitudinal and behavioral questions to better understand the reasons and mindsets that drive channel usage and preference.

In addition, the research seeks to understand the priority and importance of various factors in forming a banking relationship, the usage of new technologies like RDC, distinctions in shopping patterns among switchers and the newly banked, reliance on various payment alternatives and the growing differences in the customer bases of national, regional, community banks, credit unions and others.

Other questions in the survey include demographic profiling questions, such as deposit and investment holdings, profession, education, and marital status. While this research has proven valuable in understanding the current dynamics of the industry as a whole, many clients have also found value in relating the channel preferences and attitudes identified in the survey to actual transaction behavior in their customer base, both to understand why customers behave the way they do, but also to identify customers for potential and opportunity going forward.

As mentioned in this report, understanding who your customers are and what they are doing is paramount to maximizing the value and return of your portfolio, and the multi-channel research provides an important lens into customer behavior. As customers and the industry evolve, so should the questions we aim to understand about channel preferences and behaviors. The survey will continue to adapt to these new trends and behaviors observed in the bank environment today, but as you may also have questions about these changes (and potential changes), feel free to contact us to discuss including them in the next iteration of the research.
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Novantas, Inc. is the leader in customer science and revenue management strategy for the financial industries. A FinTech 100 Company, its Advisory Services, Analytical Solutions, Research and Marketing Services specialize in investigating and interpreting customer needs, attitudes, and behaviors to help banks refine pricing, marketing decisions, customer strategies, and sales and service activities, and to accelerate their immediate and ongoing economic performance. For more information, visit www.novantas.com.

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