

Why branches matter in a digital age.



Local banking
for Britain



Foreword.

One short year ago TSB Bank launched on high streets across Britain, with a mission to bring more competition to UK banking and ultimately make banking better for all UK consumers.

Having welcomed 25 million customers into its 631 branches, completed 158 million mobile and online transactions, and dealt with 15 million telephone queries during its first year what message would TSB give to would-be competitors in the UK banking market?

Some argue that because technology and innovation is revolutionising the way in which customers interact with their bank and money that's the only way to compete, and that emerging digital-only providers – be they from the banking industry or elsewhere – will make branches redundant. The steady flow of bank branch closures by the major established banks over recent years has given that theory an air of credibility.

TSB thinks differently.

TSB believes the future of banking lies in branches and technology – enabling customers to bank where they want, how they want and when they want. Yes, customers are adopting mobile and digital banking at a pace we've never seen before. But the importance of having a branch in a convenient location is as important as ever for consumers.

For those who want to offer genuine competition in the future, the ability to meet that customer demand is crucial. The focus for banks shouldn't be in deciding between branches or technology, but in investing in branches and the service they offer, alongside a first rate digital offer.

TSB will be doing just that.



Paul Pester
Chief Executive Officer

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Executive summary.

Over the past two decades there have been huge changes in the way we bank. Telephone, internet, and now mobile banking are transforming customers' banking experience and enabling consumers to bank how they want, when they want.

One might think the digital revolution taking place in banking could mark the end of bank branches. Nothing could be further from the truth – TSB believes bank branches will remain a lynchpin of the UK banking system.

The desire for a local branch remains the biggest single factor in consumers' choice of a new bank account. Consumers rightly want the best of both worlds – the convenience of a sophisticated digital offer and the reassurance of physical local presence on the high street. Selecting between branch banking on the one hand and telephone, online, and mobile banking on the other is therefore a false choice.

This short report sets out how and why branches will continue to be one of the cornerstones of UK retail banking:

- Use of bank branches remains high, and in recent years has grown, even as digital banking technology has continued to improve.
- For key decisions or processes, such as opening a new bank account, branches remain the first port of call. While what we do in branch may be changing, the inherent importance of branches is not.
- New entrants to the UK retail banking market need to have a “bricks and clicks” banking model, combining a strong branch network and online capabilities, to be truly competitive. For customers choosing a new bank, branch location remains the biggest single factor in the decision.

TSB believes a modern, responsive banking system that meets the needs of its customers, and the wider economy, requires both an excellent digital offer and full service branch presence.

Customers must be in the driving seat – that means they must be able to use online and mobile banking as much, or as little, as suits them, safe in the knowledge that the branch is waiting.

That is why TSB is investing in its branch network. By the end of this year TSB will have refurbished 265 of our 631 strong branch network, installed 80 new ATMs and will have begun a UK wide roll out of local branch telephone numbers. We also have scope to enhance our proposition by establishing a branch presence in a modest number of carefully selected new locations.

The multi-channel consumer.

A digital revolution in banking.

Branches have always been at the heart of the UK retail banking model, but the rise in new technology has offered consumers new and alternative ways to bank.

Customers are now able to bank how they want, when they want and where they want. They are able to buy goods, transfer money and check their balance from the office, at home and on-the-go 24 hours a day.

The scale of the online revolution in banking has certainly been remarkable, and has mirrored a more general trend towards online services. According to the Office for National Statistics, in 2014 76% of all adults accessed the internet every day and 74% bought goods or services online, up from 53% in 2008¹. According to a YouGov poll in June 2014, 77% of customers use online or mobile banking at least once a month² and recent figures from the British Bankers' Association have shown that customers transfer £6.4 billion per week using internet banking – a 10% increase from £5.8 billion per week last year.³

The use of mobile banking is set to increase even further with the ubiquity of smart phones and the increasing availability and sophistication of mobile applications. British Bankers' Association figures also showed a strong demand for banking apps for mobiles and tablets, with 14.7 million downloads.⁴

While online and mobile banking have been increasing, the number of branches on our high streets has been declining. The Campaign for Community Banking Services has calculated that in the first six months of 2014, 300 branches have been shut – more than for the whole of 2013.⁵ Even more starkly, research by Nottingham University last year revealed the UK has lost more than 40% of its bank branches in the past 20 years.⁶

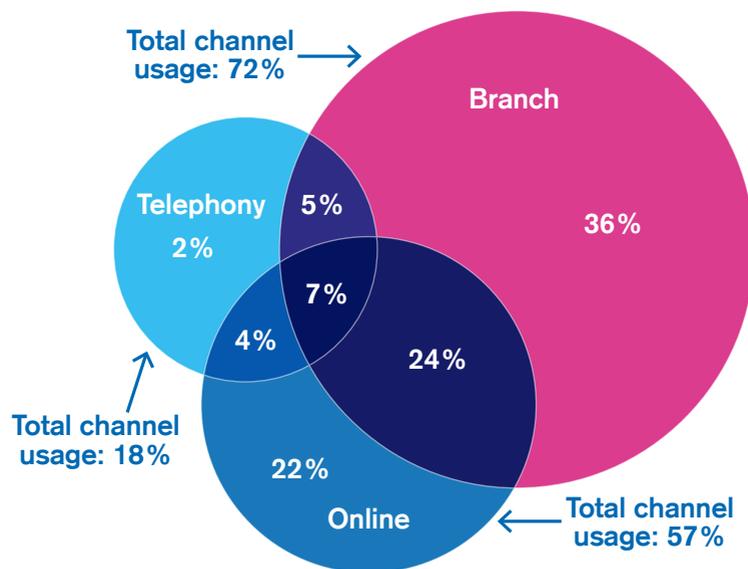
The continued importance of branches.

Although online banking is growing, branches remain important to customers. New data from ComRes shows that 69% of people believe that it is important to have bank branch close to where they live.⁷ Branches also remain TSB's most used service channel with 72% of customers who use any channel using a branch in the past three months and, 36% solely using branches to access their accounts. This is reflected in research from professional services firm Deloitte, which has found that nearly three quarters (72%) of consumers will still usually go to their high-street or shopping centre branch to access financial services⁸. Analysis by the consultancy firm Accenture, moreover, even suggests that branch usage is growing, with a sharp rise recorded since 2012⁹. Their research has also shown that more than half of bank customers (52%) now use their branch at least once a month.¹⁰

Although the popularity of online banking is growing very few TSB customers are “online only”. Of those who do use online banking to access their services, over half (54%) also choose to use branches.

Branch remains TSB's most used channel.

Percentage mix (100%) of transacting customers



Source. TSB internal data. PCA transacting base Q2 2014.

Rather than directly switching from branch banking to online and mobile services, customers are increasingly attracted to a multi-channel approach, using a mixture of online and offline services. This is why a number of banks, including TSB, are committed to a “bricks and clicks” approach – refurbishing and investing in branch networks to be smarter, more flexible and to accommodate and reflect the use of digital services, while continuing to provide customers with new ways to bank through online and mobile services.

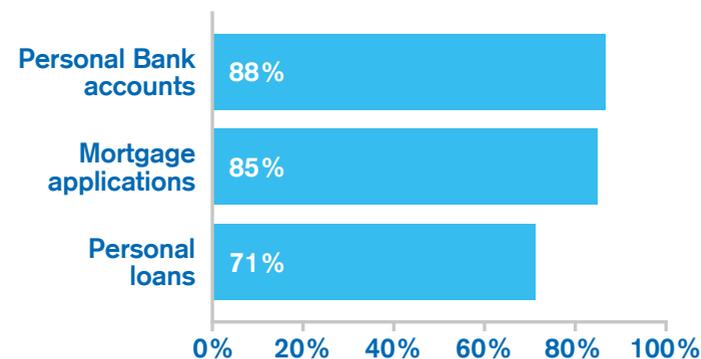
How branches are used today.

So if customers are increasingly turning to mobile and internet banking for their everyday needs, what are they using branches for?

Face-to-face interaction remains important.

Despite a growth in the number of customers using mobile and online banking to access their accounts and make transactions, branches remain the first point of call for purchasing financial services products. Although some of these are for life's “bigger moments” where a customer values face-to-face interaction because they are dealing with large sums of money – such as taking out a mortgage – this desire to buy products in branches rather than online or over the phone goes across product ranges. TSB's own research shows that 88% of bank accounts are opened in branch, while 71% of personal loans and 85% of mortgage applications still take place, in whole or in part, in a branch. When customers are conducting “value-added” transactions of any description, where they want advice or discussion, branches remain as important as ever.

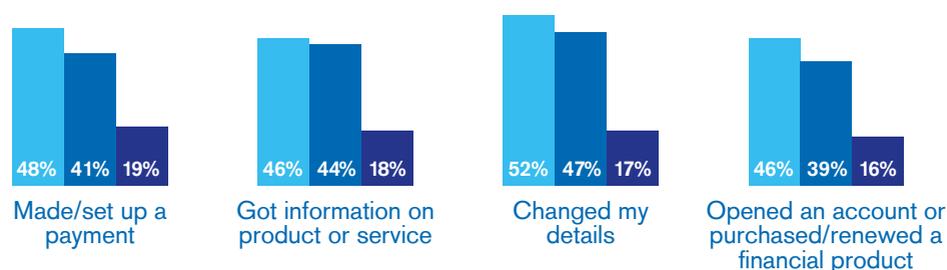
Personal Bank accounts are predominately purchased through the branch.



Source. TSB Internal data. Products purchased in branch (Jan/Feb 2014).

It is often assumed that the decline in branch usage is due to younger consumers being more comfortable with using technology and less fearful about online privacy concerns. However, Accenture's research showed that the most pronounced increase in branch usage in fact came from consumers aged 18-24, as these customers value face-to-face advice and reassurance provided in branches when starting out on their financial journey.¹¹

Responses to the survey question: "Which of the following activities did you do during your last visit to your bank's branch?"



■ Age 18-24
■ Age 25-34
■ Age 35+

Source. Accenture. *Winning the Race for Relevance with Banking Customers* (2014)¹²

Branches need to evolve to meet local need.

But for branches to provide the services customers want in a digital age, banks need to be flexible and respond to local need. Findings from market research institute GfK suggest that many customers have clear ideas on how they would like their bank branch to change. One third of people (34%) would like longer opening hours on Saturdays followed by longer opening hours during the week (31%) and one quarter (26%) wanted more qualified staff who can offer help and advice.¹³ As TSB evolves we plan to address these themes by giving branches the autonomy to change opening hours to suit local need and by designing and delivering an extensive training programme that will ensure that customers get the most value from TSB Partners across the branch network.

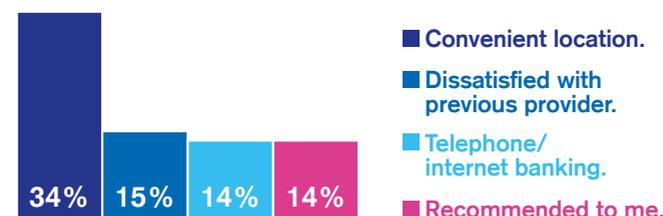
Branches are a hallmark of competition.

Competition is a central theme of recent debate on UK retail banking. There is a widespread and justified view that the sector needs to be more competitive, and the Competition and Markets Authority is currently looking in detail at how this can be achieved.

Politicians have argued that the ease at which consumers can switch banks is an important measurement of competition in the retail banking sector. As the Office of Fair Trading noted in its 2013 review of competition in the personal bank account market, branch presence is important because it helps to increase the number of consumers who switch their banking provider.¹⁴

GfK's Financial Research Survey shows that convenient locations remains the most popular reason for choosing a new provider when switching current accounts, with 34% of respondents citing branch location as their key reason for switching¹⁶. In particular, branches are incredibly important for customers when they are considering opening a bank account. A 2007 report by Deloitte on the future of the branch found that for three quarters of people, having a branch near their home or office was an "essential" factor in their choice of current account.¹⁷

The top four reasons for switching to a new bank.



Source. GfK Financial Research Survey, 12 months ending December 2013, All switching current accounts in the last 12 months.¹⁵

Personal bank accounts are important because they are usually the first financial product that people take out as adults, and are often the basis for a lasting relationship, which has an important impact on future financial product purchases. Because branches are an important factor when deciding where to open a personal bank account, they have direct and indirect long-term consequences for a bank's future growth and ability to compete.

TSB's commitment to a strong branch network.

TSB's vision is to provide local banking for Britain to help local people, businesses and communities thrive together.

TSB already have 631 branches across the country, serving 4.5 million customers, making it the eighth largest branch network with 6% of all UK branches.

Investing in and strengthening TSB's local branch network.

While other banks are closing branches, TSB is investing and growing its network because it sees the value in its branches to help high streets to thrive across Britain. That is why, by the end of this year, TSB will have completed refurbishment on 265 branches and installed 80 new ATMs. But in order to reach a bigger share of the population, we have scope to enhance our proposition by establishing a branch presence in up to 30 carefully selected new locations as part of a £250 million package which also includes improving our services and digital offer.

The new branches will be in targeted locations to increase the proportion of Britain's population who are within two miles of a TSB branch making it easier for customers to bank face-to-face. This investment will help local communities thrive and create more local jobs. It should also enable TSB to get closer to customers and better understand what they really want.

In TSB's view, local banking means having local branches that fit in with what their community needs. This is why TSB has reviewed the opening hours of its entire network of 631 branches, and will now be using the local knowledge of TSB Partners working in the branches to ensure the new opening hours reflect the needs of local communities in which they are based, whether that be a rural village or a city centre. Almost three fifths (57%) of the network already opens on a Saturday or later in the evenings and more branches are looking to adapt their opening hours to better serve their customers.

Over the course of the next year, TSB will also be redesigning our branches to better fit local community need and to take advantage of technology to ensure that more of our branch teams are dealing with customers. We aim to create an environment that helps local people and the communities they live in thrive together with the support of branch colleagues who are equipped to deal with the issues customers want us for. We will be using technology to enhance our customers' experience – while leaving them with choices as to how they bank; we recognise that one size does not fit all.

Each branch will also benefit from a new local telephone number so customers can discuss their branch-related enquiries with TSB staff they are familiar with. This builds on TSB being the first bank to abolish costly 0845 numbers. The local numbers are currently being piloted in the North of England, with a view to rolling out across Britain by the end of 2014.

A first-class digital presence.

At the same time, TSB is also investing in online and mobile services. TSB has recently re-launched tsb.co.uk, sporting a more modern look and a new branch locator facility and was one of the first banks to take part in PayM. The development of a new app is also underway in response to the strong consumer need for new technology to compliment branches enabling customers to transact in the way that suits them best. In future TSB intends to ensure that it can provide its customers with a “best of both worlds” approach to branch and digital services so that it becomes the bank that truly enables customers to bank how they want, when they want and where they want.

TSB recognises that the branch remains and will continue to play an important role in UK banking, but in the modern era brilliant service in branch must be coupled with a strong digital and telephone offering that reflects the needs of the local communities that they operate in. TSB is committed to providing the best possible service to customers no matter how they choose to bank. A landscape full of variety will serve the UK population's banking needs best, which is why TSB is fully committed to evolving with its customers.

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