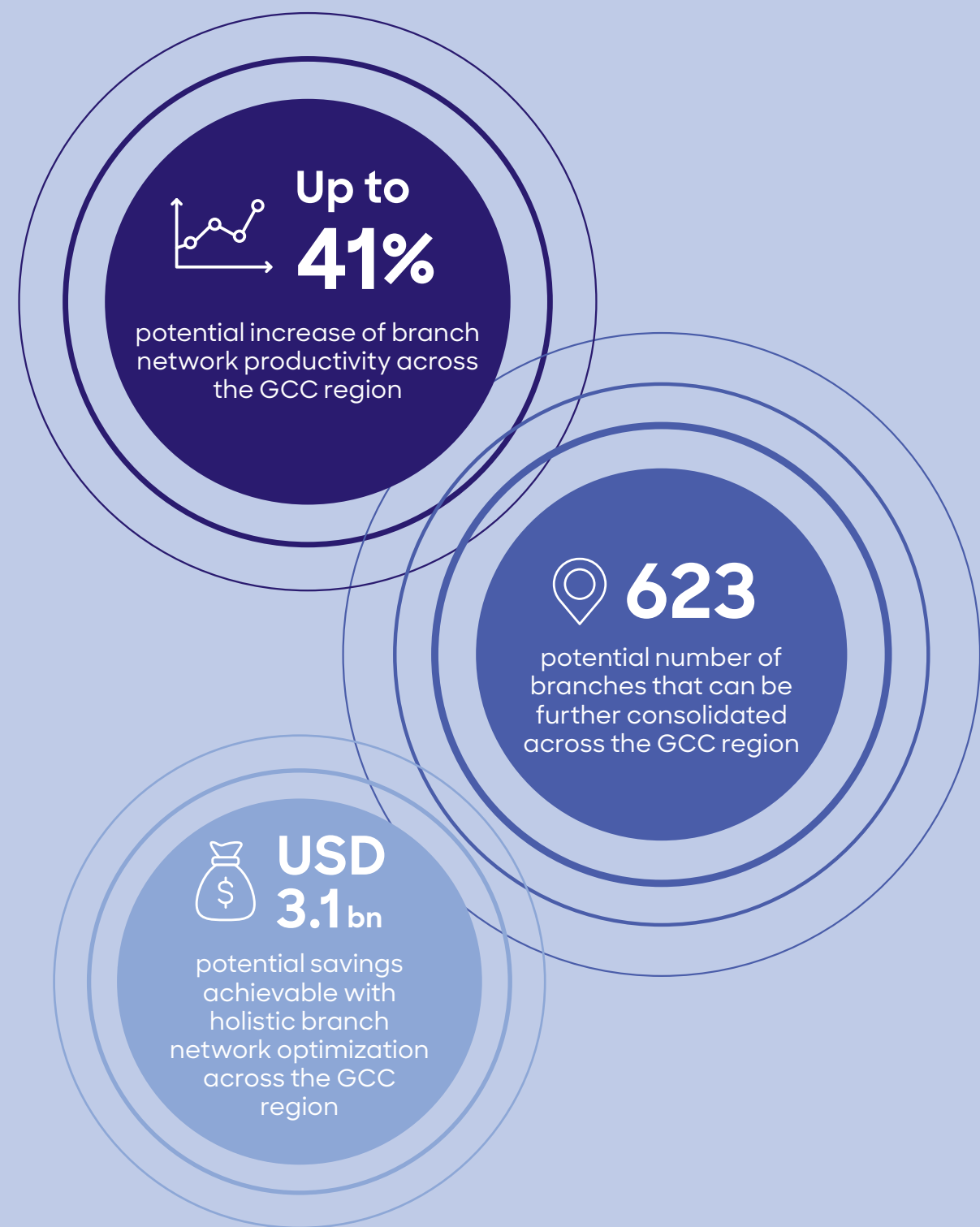


Do banks still need branch networks?

Optimization opportunities with a focus on the GCC region



Key figures



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1

Introduction: The changing paradigm of banking branches

Historically, the banking sector was characterized by significant market entry barriers. For a new market entrant, apart from regulatory licensing requirements, building scale was mostly a matter of capital availability and having a large physical distribution network, which was also key to building trust and owning the customer relationship.

In more recent years, with digitalization becoming more and more pervasive, including in the banking sector, new “digitally-enabled” solutions have partially disrupted the historical advantage of owning the customer relationship via expensive and sizeable branch footprints. New entrants have found innovative ways to attack parts of the banking value chain with scalable solutions that do not require significant investments in physical assets. For now, the focus of these companies is mostly on simple and standardized banking products that address a large number of customers without requiring specialization (e.g., payments, investing, money transfers), but product and service portfolios are enriching year after year, posing increasing challenges to the incumbent banks.

In addition, the recent pandemic not only boosted customer readiness to embrace digitalization but also built customer expectations regarding the expected level of digital service across all industries, including banking. Such acceleration of the digital transition gave further advantage to the digital new entrants and further questioned the relevance of the traditional physical distribution networks. Banks that historically aimed to build extensive branch networks as a key source of competitive advantage are now asked not only to react but also, more importantly, to understand how to effectively capitalize on these structural changes happening in the banking sector. Banks now have a unique opportunity to deeply re-think the way in which they serve their customers, harvesting the benefits of optimizing their large branch networks while ensuring customers’ needs are addressed with appropriate digital solutions.

The main objective of this publication is to assess the impact of this changing environment on the traditional paradigm of banking branches, with a particular focus on the GCC region, answering the following key question: **Are branch networks still a relevant source of competitive advantage for banks?**

Specifically, four main areas are addressed to reach the final answer:

- Overview of the current branch network footprints across the GCC region
- Insights on how and why GCC branch networks evolved in the last few years in response to the changing environment
- Estimation of the further optimization potential associated with the changing environment
- Suggestions on how to ensure full capitalization of the branch network optimization potential

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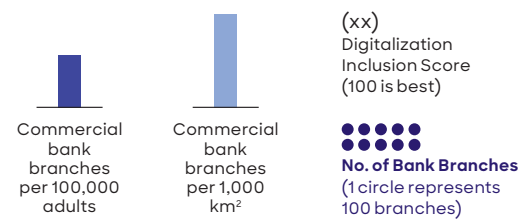
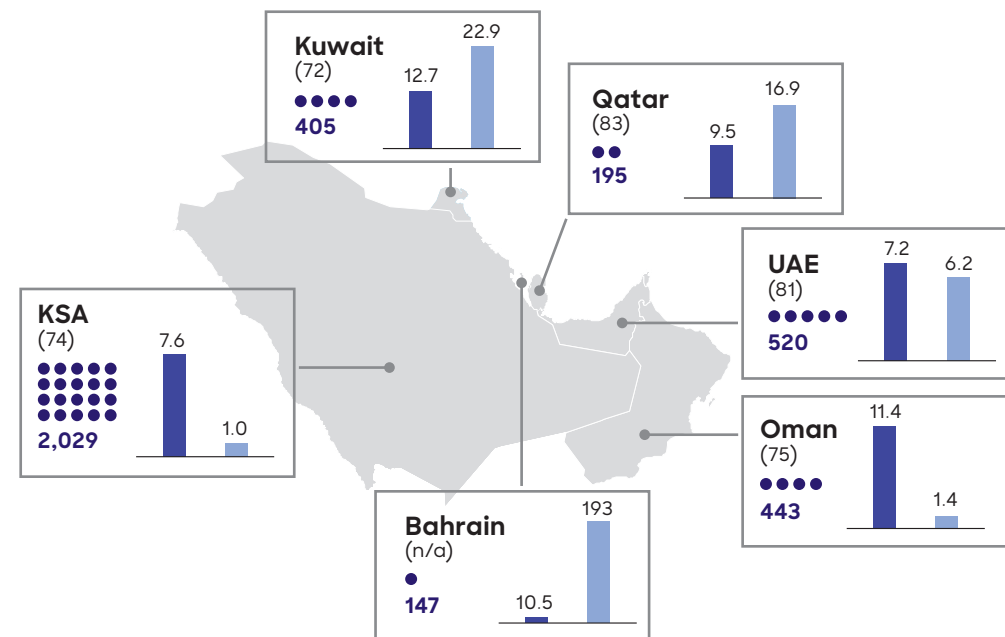
Status quo: Branch networks across different GCC countries

The GCC region has emerged as a dynamic economic hub, highlighting rapid growth, diversification, and modernization across various sectors. A pivotal driver of this economic transformation is the banking sector, which plays a crucial role in facilitating financial services, fostering economic growth, and shaping the overall financial landscape in this region. Bank branches, as physical representations of financial institutions, constitute the on-the-ground “arm” of the banking sector. Hence, it is important to understand the current level of their development across the region to gauge the level of reach of the end-users and, ultimately, their support of economic development.

By observing the structural specificities and recent evolutions of branch networks in each of the GCC countries, it is possible to clearly identify three clusters of countries with similar characteristics:

- **Champions (Qatar and UAE)**, where banks have already gone through a few consolidation waves and have leveraged the high digital readiness of the population to enrich the service model and complement offers through digital channels.
- **Challengers (KSA and Bahrain)**, where branches' digital transformation is currently ongoing, with physical branch networks still being the dominant sales channel, and where there is a strong effort by banks to further promote customer migration toward online channels.
- **Laggards (Kuwait and Oman)**, where physical branch networks are still oversized compared to the banking market size, being also the dominant sales channel; digitalization readiness and customer propensity towards alternative sales channels still need to be elevated to enable a structured physical footprint optimization.

A Branch network size and maturity across the GCC countries



Source: World Bank, Central Banks, Roland Berger

Champions

Qatar and UAE are the most advanced countries in terms of digital and financial maturity. Those countries have lower bank branch density, with their branch networks being more concentrated in space due to the concentration of residents around the main cities. These are growing economies with a significant expat base of highly skilled workers, where customer needs and expectations are high. Due to such characteristics, banks in Qatar and UAE have already undergone branch optimization activities and invested significant efforts to enrich the service model and complement it with digital offerings. In addition, some optimization activities are the result of structural changes in the banking sector in those countries, particularly bank consolidation (e.g., Abu Dhabi Commercial Banks' three-way merger with Union National and Al Hilal in the UAE, Barwa Bank's merger with International Bank of Qatar to form Dukhan Bank in Qatar, as well as Masraf Al Rayan's merger with Al Khalij Commercial Bank in Qatar), which capitalized on branch network rationalization as one of the key sources for targeted synergies, impacting the sizing and structure of the branches' networks in those countries.

Challengers

KSA and Bahrain are undergoing significant digitalization progress but still need to accelerate digital readiness and accessibility. Those are growing economies, particularly KSA, which is investing significant effort in diversifying its economy through the ongoing Saudi Vision 2030 strategy. Due to the geographical characteristics of KSA, branch network is widely dispersed across the country and are still used by leading banks as a source of competitive advantage to physically reach the vast majority of the population. In contrast, Bahrain is a smaller country that historically served as a financial hub for the region and where branches still have a relevant role in managing clients' relationships. Due to the oversaturated local market, the number of physical branches has begun to significantly decrease over the last couple of years. In addition, consolidation of the banking sector happened in KSA (e.g., Saudi British Bank merger with Alawwal Bank in 2019 to form Saudi Awwal Bank and National Commercial Bank merger with Samba Financial Group to create Saudi National Bank in 2021), shaping the structure, size, and geo-location of branch networks.

Laggards

Kuwait and Oman have extensive branch footprints in line with the customer preference still more inclined towards usage physical channels as the main contact point. In addition, digital readiness of the population is relatively lower than other GCC countries and hence a transition towards online channels needs to be carefully managed. Kuwait has made progress in branch network consolidation over the past years, but the physical branch is still the dominant sales channel, and there is still significant potential to enrich offerings with digital products and services. In addition, to optimize financial performance, financial institutions are entering into cross-border acquisitions (e.g., Kuwait Finance House acquiring Ahli in Bahrain), leaving a potential to further accelerate branch optimization within the country. Oman went through some consolidation activity (e.g., Oman Arab Bank takeover of Alizz Islamic Bank in 2020), with further consolidation discussions in progress (e.g., Sohar pre-approval of the merger with Bank Nizwa as well as an attempt to acquire HSBC Oman), which would support optimization of the branch footprint.

3 Recent evolution: How branch networks respond to the changing environment

After having described the current situation of branch footprints across the GCC countries and how banks in each market leverage existing branch networks, it is now important to deep dive into how physical networks evolved over the past years in response to the changing banking environment. The different degrees of recent progress in branch footprint consolidation, the different branch network concentrations, and the different branch productivities across the GCC countries will then be considered as the basis for the identification of further optimization opportunities that are still "left on the table" in each country.

BRANCH FOOTPRINTS HAVE BEEN OPTIMIZED ACROSS MOST OF THE GCC COUNTRIES

Over the last years, branch footprints across most of the GCC countries have undergone some footprint optimization, but to different degrees and driven by different factors.

The most substantial consolidation of branches took place in **Bahrain**, where nearly 28% of branches have been closed over the past 3 years. Bahrain’s size and the historical significance of the country as a regional financial sector hub has led to a unique market situation. The domestic banking market became oversaturated with banks and branches. Even though a fully streamlined branch footprint has still not been fully achieved and digitalization efforts are still underway, Bahrain’s banks have begun a significant optimization journey to contain costs and match service models with demand needs.

Banks in the **UAE** achieved one of the largest reductions in the number of branches, where almost a quarter of branches have been closed over the past three years. The key drivers of this significant reduction of branches are mostly associated with the recent consolidation activities in the banking sector, an increased focus on cost-based optimization, and a significant shift of demand from physical to digital channels.

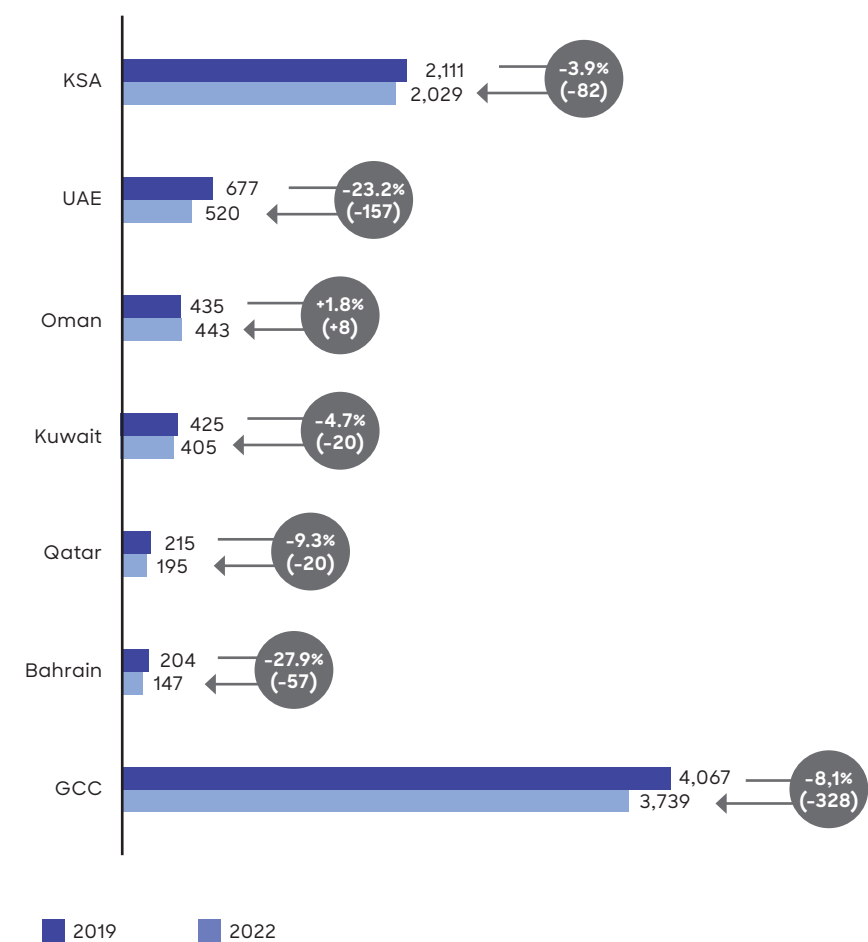
In **KSA**, branch networks have undergone a mild footprint optimization of around 4% over the past three years. Banks adapted branch network size and format in response to the increase in digitalization and competitiveness, mostly driven by shifted customer behaviors post-pandemic. The digitalization trend has also been facilitated by the Saudi Arabian Monetary Authority (SAMA), which issued licenses for digitally native banks (e.g., STC and Saudi Digital Bank) and for fintech companies targeting specific areas of the financial sector value chain (e.g., payments).

Qatar’s branch footprint has been reduced by almost 10% over the past three years. Optimization efforts and adaptation of the branch’s networks have been triggered as a response to the specific macroeconomic situation (e.g., the past embargo imposed by KSA, UAE, and Bahrain), in addition to recent consolidation in the banking market and an overall transition toward digital channels.

In **Kuwait**, the branch footprint through the recent consolidation, with the reduction of 5% of branches, mostly concentrated in 2022. After years of oversized network, banks have now entered optimization programs as well as structural market consolidation, commencing the journey towards more streamlined physical channels.

The branch network in **Oman** has remained constant over the past three years, due to physical network still being very prevalent as the main banking channel. In addition, Oman has a structural specificity where the leading bank owns the vast majority of the branch network and still leverages on them as a key source of competitive advantage.

B Evolution of branch networks across the GCC countries (2019-2022)



Source: Central Banks, Roland Berger

MARKET LEADERS MOSTLY CONTROL THE OVERALL BRANCH NETWORKS

Historically, market leadership has been established and retained through wide and extensive network coverage. By doing so, leaders ensured a strong market presence and coverage, enabling effective deposit collection and lending activity. Such a legacy is still valid for every GCC country, with market leaders having the widest network coverage. However, branch concentration of market leaders differs across countries; the relevance of physical presence matters less in countries where population density is high and where the digitalization level has reached maturity.

In **KSA, Qatar, and Oman**, the retail market leader owns more than a quarter of the overall branch network alone, reaching up to 39% of branches in Oman specifically. This is a consequence of the legacy and historical relevance of the physical network. However, where branch optimization efforts have been initiated, the retail market leader has significantly reduced its branch footprint. For instance, in Qatar, branches of the retail market leader have been reduced by more than 25% since the inception of its major digital transformation

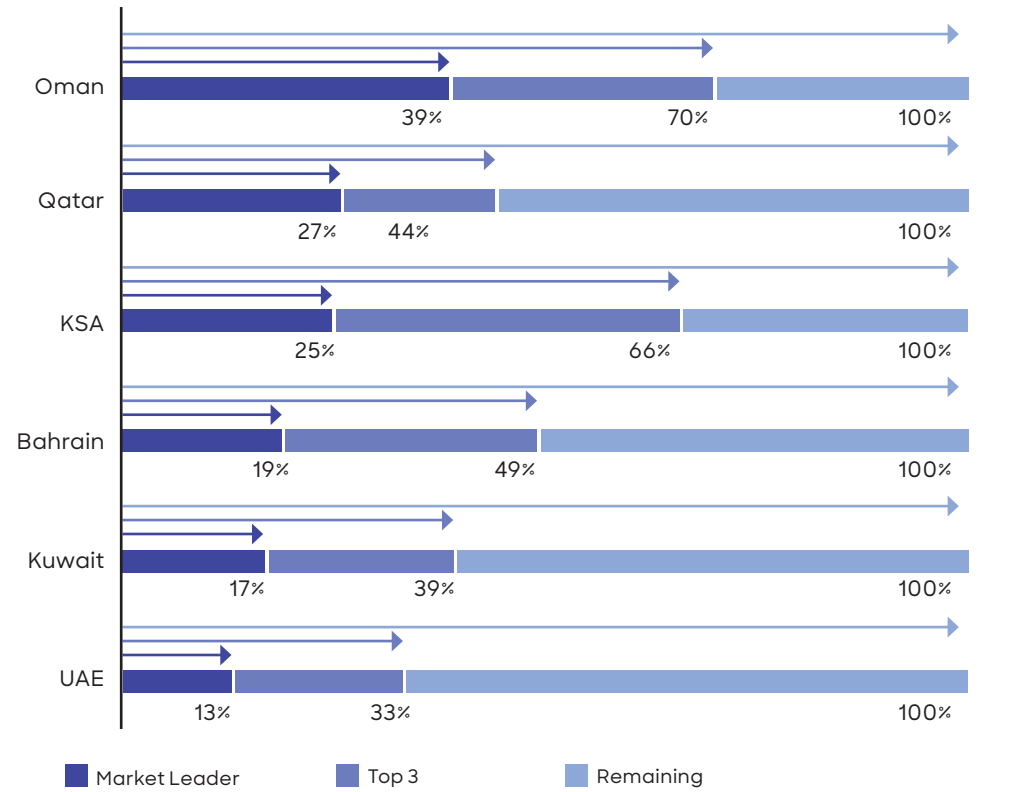
program in 2018. In addition, in KSA and Oman, the high branch concentration owned by the market leaders is due to the dispersed geographical characteristics of the countries. However, going forward, in KSA, this structural branch concentration is expected to gradually decrease due to the intrinsic demographic characteristics of the country, where almost 2/3 of the population is below the age of 30 and is digitally native, and therefore is expected to continue shifting toward digital channels.

In **Bahrain**, the branch network is fairly concentrated. The leading bank owns almost 20% of the overall branch network within the country, while approximately 50% of branches footprint is concentrated among the top three banks. On one hand, this is explained by the historically strong market positioning of the leader, Bank of Bahrain and Kuwait (BBK), which has maintained a dominant market presence for over five decades and has strategically utilized its branch network to capture and protect its positioning. On the other hand, looking at the broader market structure, despite the significant number of registered banks in the country (including over 30 retail banks, both conventional and Islamic), the vast majority of banks have very limited local presence. Specifically, 24 out of the 30 banks operate with fewer than 5 branches, and 15 of them have only one branch or no branch presence at all.

In **Kuwait**, the branch footprint is not very concentrated, without a strong retail market leader in terms of the number of branches. Most banks still leverage physical channels as a focal point for their interactions with their customers, and therefore, branch networks are spread across all market participants.

In the **UAE**, due to the high level of digitalization of the population, increasing customers' expectations for digital channels, and the high concentration of the population around key cities, the market leadership position is not sustained through a sizeable physical presence but through an effective digital and hybrid channel offering. Retail market leaders are attracting a digitally advanced part of the customer base with a sophisticated level of product needs that is served without physical visits to branches. As such, the typical high cost-to-serve of the physical channels is now being reallocated as an investment towards digital transformation programs and enhancement of the digital offering.

C Branch network concentration by retail market leaders and the top 3 market leaders (% of the overall number of branches owned in the country)



Source: Central Banks, Roland Berger

CURRENT BRANCH PRODUCTIVITY DIFFERS ACROSS THE GCC COUNTRIES

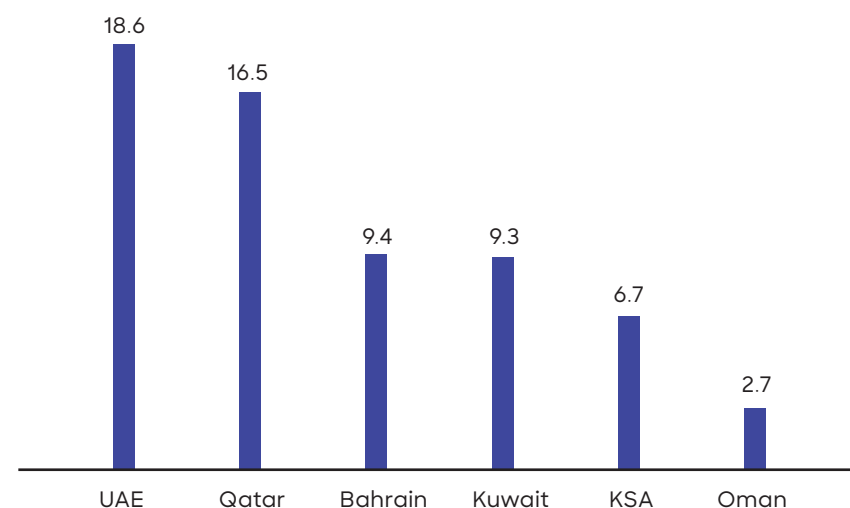
The difference in the relevance of branch networks as well as the difference in the evolution of the number of branches due to footprint optimization across countries and across banks has a direct impact on branches' productivity levels, measured as retail-generated revenue per branch.

Currently, **UAE and Qatar** have the highest branch productivity due to more mature and digitalized customer relationships, which allows banks to have less need for physical interaction

In **Bahrain and Kuwait**, even though physical channels play a prominent role in client relationship management, the high branch productivity is a result of a robust retail-banking sector that stimulates domestic consumption and contributes to overall economic growth.

Lastly, **KSA and Oman** have lower branch productivity levels due to a mix of factors, the major three being i) the predominance of branches as the main banking channel, ii) the relatively low but increasing digitalization of the population, and iii) the lower financial inclusion, which still requires a physical channel to educate the addressable population and bring it into the banking sector.

D Branch network retail productivity across the GCC countries (retail-generated revenue per branch; USD m)



Source: Roland Berger

BRANCH PRODUCTIVITY HAS IMPROVED OVER THE LAST FEW YEARS, DRIVEN BY DIFFERENT DRIVERS

Overall, branch productivity has increased over the past three years, and this improvement was achieved across all GCC geographies. However, the magnitude of the productivity improvement and the underlying improvement drivers were significantly different across countries.

Bahrain had the highest productivity increase, driven mainly by the long-term optimization effort of the oversized branch footprint compared to the small population and by an increase in retail banking revenues over the past three years.

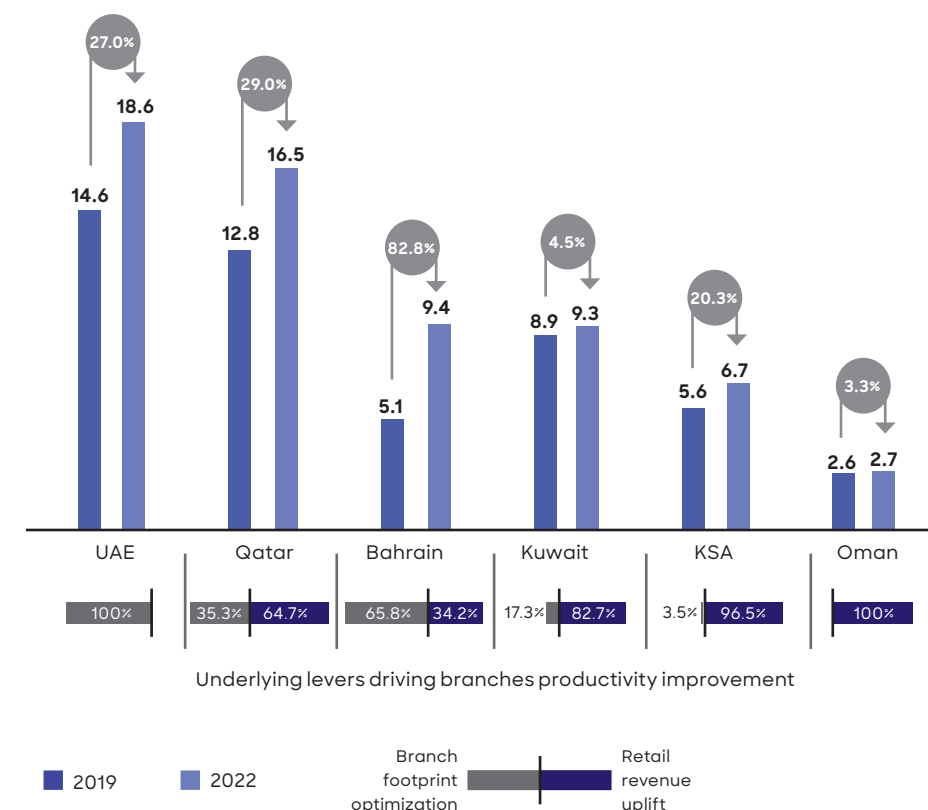
UAE and Qatar had a significant increase in productivity, despite the fact that productivity levels were already the highest among the GCC countries. Particularly in the UAE, the uplift of branch productivity was mostly driven by a consolidation of the branch footprint by more than 23% (i.e., 157 branches closed over the past three years out of a total of 677 branches present in 2019). For Qatar, in addition to the branch closures, there was a significant retail revenue uplift over the same period, mostly due to the specific events of the opening of the economy post-embargo and the hosting of the World Cup.

KSA also had a sizeable productivity increase for two main reasons. First, financial maturity recently grew, demonstrating the underlying productivity potential. Banks are launching initiatives to increase the banked population by introducing tailored offerings and targeted financial inclusion. GDP per capita has significantly increased over the past three years, beginning its converging journey toward the wealthiest GCC countries. Second, digital maturity is also increasing. KSA is a nation with a substantial youth demographic,

where nearly two-thirds of the population is under 30 years of age. This influences banking demand as the younger population enters the bankable segment and starts cumulating wealth and addressing fundamental needs, such as housing.

Lastly, **Kuwait and Oman** achieved productivity improvements, but in the single digits, contrary to the other GCC countries. This was mostly due to the less emphasis on branch footprint optimization initiatives given the still relevance of physical channels as primary banking channels, as well as the lack of strong revenue uplifts over the past three years.

E Branch network retail productivity improvement across the GCC countries and key drivers (USD m, %)

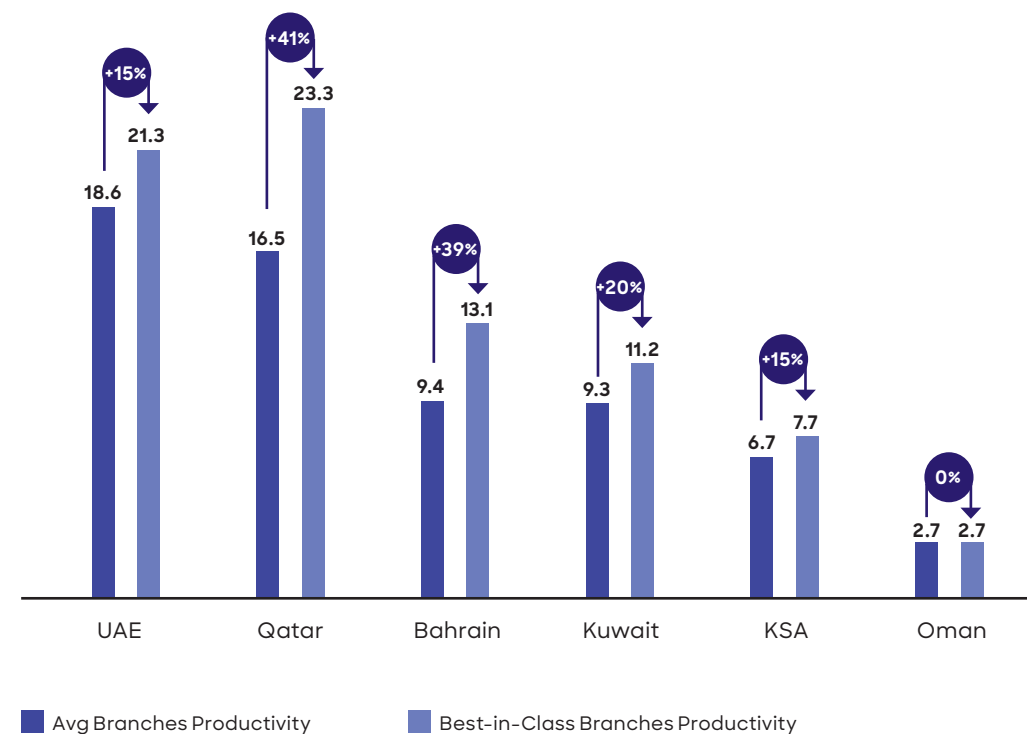


Source: Roland Berger

DESPITE OVERALL BRANCH PRODUCTIVITY INCREASES, PRODUCTIVITY LEVELS SIGNIFICANTLY DIFFER ACROSS BANKS WITHIN A COUNTRY

Despite the overall productivity improvement at the country level, within each country, there are a handful of banks that are able to achieve far superior productivity levels than most of the other banks. Such higher performances are typically driven by three factors: i) a clear strategy to focus the efforts on the most profitable part of the retail market; ii) more advancement in the digital transformation journey; and iii) a strong focus on cost containment programs, among which branch network consolidation is a major impactful initiative. Performances by local champions highlight the gap that has not been explored and exploited yet by other banks.

F Best-in-class branch productivity potential (USD m)



Source: Roland Berger

Typical initiatives put in place by the market leaders and that can also be adopted by the rest of the banks are the following:

- Best-in-class banks ensure focus of their commercial and operational efforts on high-value customers:** Best-in-class banks focus efforts on high-value customers with higher income and lower price sensitivity (i.e., wealthy individuals vs. mass-market) that privilege brand recognition, service satisfaction, and offerings for sophisticated financial needs (e.g., active investing and demand for structured products vs. purely transactional behavior), which generate higher revenue per customer while also capturing a higher share of wallet. This high-value segment is also more financially and digitally educated and hence requires less physical interaction with the bank. Mass market segments are served with more efficient efforts, including less physical coverage, in line with the lower expected value generation..
- More advancement in the digital transformation journey, looking at both in-branch and at the broader omnichannel integration:** Best-in-class banks are investing in digital transformation to enrich the client offering and the service level. In some cases, champions complement their offering by creating digital-native brands, designed to use primary digital channels as a source of interaction with the digitally native segment of the customer base.
- Strong focus on cost efficiency programs through consolidation of branch footprints, optimization of processes, and leverage of technologies:** Best-in-class banks have

already commenced branch consolidation efforts and in some cases, they are consolidating market positioning via structural merger and acquisition activities, with branch networks as an effective source of synergy generation. In addition, they are focusing on process optimization and simplification, including in-branch processes, to reduce organizational complexity, facilitate digitalization, foster automation, and transition towards more self-service processes.

Holistic branch optimization programs can play an important role in supporting the banks' journey towards higher productivity levels. Structured programs allow banks to tackle the three-productivity optimization area simultaneously. In fact, they cover multiple dimensions and help banks improving both client facing effectiveness and internal efficiency, from enhancing branch network footprint, to improving in-branch activities, from complementing offerings through digital channels to enhancing branch roles and formats.

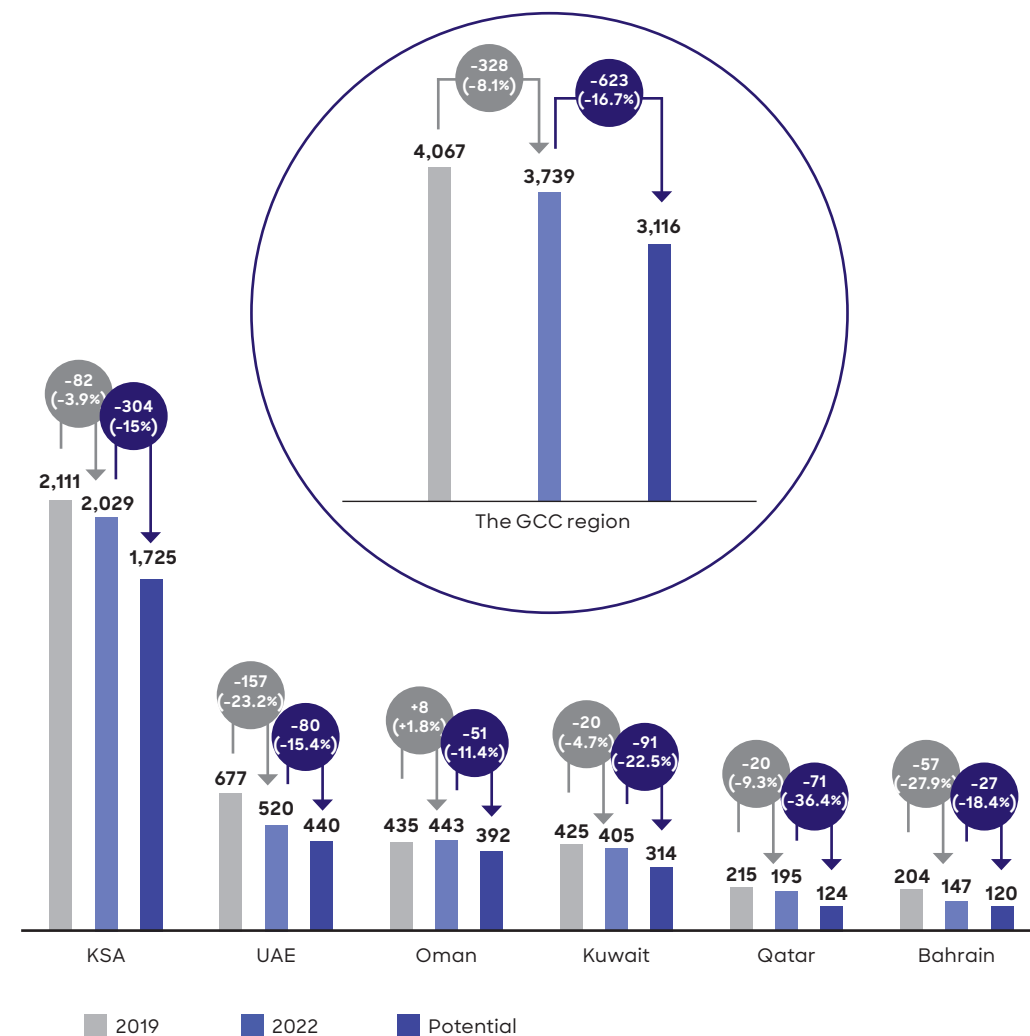
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Future opportunities: What is the size of further branch network optimization?

BRANCH OPTIMIZATION POTENTIAL IS NOT FULLY EXPLOITED YET

Given the different levels of branch network productivity across countries with comparable banking sectors and across banks within the same country, the potential to further optimize branch networks exists. Branch optimization requires deep assessment and holistic adaptation of the physical network. Multiple considerations must take place, such as aligning the overall bank's strategic objectives with the branch network strategy and potential optimization journey, identifying the best size of the network, defining the most effective location of branches, deriving relevant roles and formats of branches, ensuring integration of branches with the digital channels, and deploying in-branch technologies. The main objective of a holistic branch optimization program is ultimately to generate a significant positive impact on the P&L of the bank by boosting revenues, reducing in-branch cost-to-serve, and rationalizing the overall branch footprint. In addition, successful optimization programs not only actively consider and limit customer churn due to branch closures but also, more importantly, take the opportunity to increase customer satisfaction by enhancing the in-branch experience. Banks that enter branch network optimization journeys holistically will be able to reach a best-in-class positioning and, therefore, will have a substantial impact on their financial performance, including improving the return of their shareholders (ROE).

G Potential consolidation of branch network footprints across GCC countries over the next few years (# of branches, %)



Source: Central Banks, Roland Berger

Looking at productivity gains still not fully captured by banks (measured as the retail productivity of each bank compared to the productivity of the market leaders within a specific country), it is possible to derive what would be the optimal and streamlined branch network in each country. For the entire GCC region, there is substantial potential to further consolidate branch networks. **A total of 623 branches could be further reduced**, or around 16.7% of the overall number of branches. This is a long transformational journey expected to last several years and needs to be fully embedded in the banks' broader strategies. In the longer term, the potential may be even higher when the banking sectors of the laggard and challenger countries structurally converge towards more developed markets within the GCC region.

In absolute terms, the most significant branch optimization potential exists in **KSA**, with a potential reduction of up to 300 branches in the coming years. This will be driven by the elevation of overall digital maturity and the significant shift in banking customers' expectations. In fact, the large population of the country has a unique demographic structure, with a sizeable cohort being digital-native. This current and future client base expects digital interactions as the primary channel, seamlessly integrated with their occasional branch visits only for more complex services.

UAE and Qatar, despite their ongoing optimization journey, still have significant potential to explore due to their high digitalization level, the concentration of the population around main cities, and the existence of a demanding and sophisticated client base. In these countries, there are already market leaders showcasing the potential of the branch optimization journey, and other banks are expected to embrace the same journey in the upcoming years.

Bahrain, due to its historical role as a regional financial hub and despite recent optimization efforts, still has an oversaturated branch footprint, which implies further optimization potential going forward.

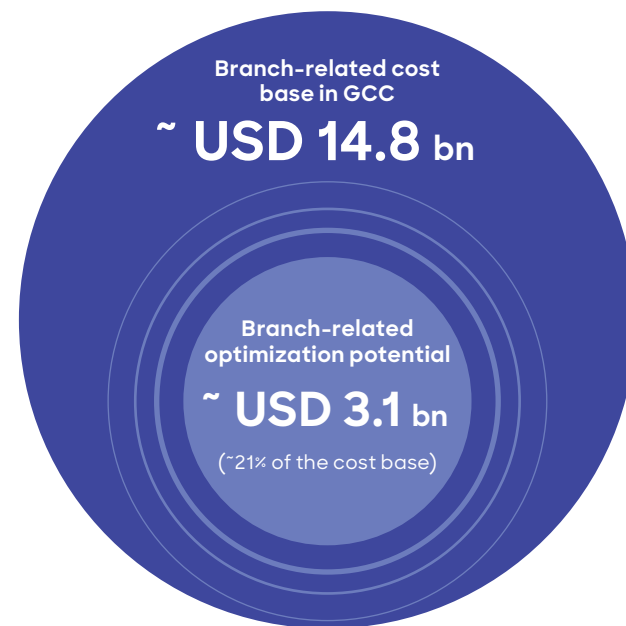
Lastly, **Oman and Kuwait** are just at the beginning of their branches' optimization journeys, and, as the digitalization level evolves and market demand shifts toward digital channels, the importance of the branches will gradually decrease in the upcoming years.

BRANCH OPTIMIZATION COULD UNLEASH MATERIAL BENEFITS IN THE GCC REGION

Optimization programs targeting branch networks holistically can generate a significant impact on the P&L of banks, both in terms of increased revenues from higher customer service and in terms of cost reduction due to higher structural efficiencies. The latter is particularly sizeable and mainly achievable thanks to two major drivers: i) consolidation of the overall branch footprint with reduction and/or relocation of branches; and ii) in-branch optimization of processes and better leverage on technologies. In addition, for banks with real estate assets used for branches, the monetization of such assets optimizes balance-sheet positions and reallocates capital to more productive core banking activities.

The estimated cost savings associated with the potential branch network consolidation in the GCC region would generate a whopping **USD 3.1 bn of recurrent OPEX savings on an annual basis**. This equals a 21% reduction in the current existing branch-related cost base. These savings can be either re-invested in core banking activities, such as product development, increased customer service, and the strengthening of digitalization programs, or redistributed to shareholders.

H Branch-related cost base and saving potential in the GCC region (USD bn)



Source: Roland Berger

5

Guiding the journey: How banks can successfully harvest the branch network optimization potential

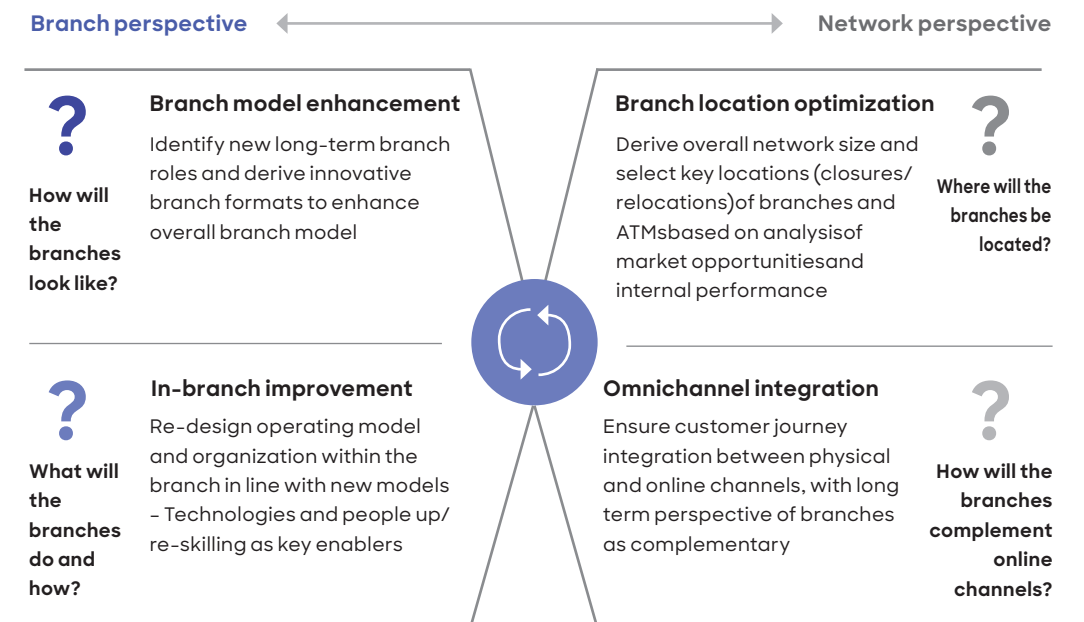
To harvest their full potential, branch optimization efforts should be integrated into the overall banking strategy and complemented with the right set of initiatives to ensure the intended effects. Branch network optimization is not an exercise in simply closing branches. On the contrary, it is a more complex exercise that requires understanding how to best serve clients who are shifting their behaviors and how to accordingly use physical channels to maximize customer satisfaction, while digital channels become primary contact points.

Therefore, to ensure full realization of the branch optimization potential, banks should answer the following questions:

- How will the branches look to better serve evolving customers?
- Where will the branches be located, and what is the optimal footprint size?
- How will the branches best complement online channels?
- What will the branches do, and how will they do it?

Answering these four questions requires banks to adopt a comprehensive framework that considers all the dimensions that need to be jointly tackled to ensure the maximization of results. **We at Roland Berger have defined a comprehensive branch network optimization framework** that summarizes the best practices and lessons learned derived from the numerous programs that we run for banks both globally and in the GCC region.

I Holistic optimization of branch networks – The Roland Berger Framework



Source: Roland Berger

A. Branch model enhancement

The first step of the optimization journey starts with the definition of the new role that branch networks will play in the future. The transformed role of branches should be geared toward fostering relationships and facilitating the role of branches as points of trust rather than points of transaction, where value-adding activities are provided. Bank branches will continue to play an important, albeit different, role. It is clear that the historical role played by bank branches in deposit collection and customer acquisition is declining. In this sense, careful planning with adequate consideration of market specificities is needed to define the new role(s) of branches in banks' integrated distribution networks.

Based on current trends, large bank branches with numerous tellers dedicated to executing simple transactions will soon be a thing of the past. As such, the role of bank branches will continuously evolve toward handling a more focused set of activities. These will include activities that generate higher value-added, such as bancassurance and investment products, and transactions that are still too complex to be fully executed digitally, such as the structuring and sale of mortgages. However, even these services will eventually be digitalized, as is the case with digitalized mortgage sales in more advanced markets (e.g., the United States and Europe).

The proliferation of a range of different bank branch formats in the past decade points to a future where different types of branches will co-exist, each serving very different purposes. These will range from large, full-service flagship branches to mini branches with a smaller footprint and limited in-person services, and even box branches where customers remotely

access teller services. Another new branch format sees tellers replaced by self-service areas with roving bank employees who proactively approach customers for assistance and sales.

B. Branch location optimization

After defining the branch model (i.e., roles and formats), banks need to redefine their geographical footprint and respective sizes. Branch geo-positioning will continue to be a strategic element in managing clients’ relationships. Therefore, the optimization of the branch locations must be fully aligned with the broader bank’s strategy, considering specific long-term objectives such as the expected role of the bank in society’s development, the expected economic impact, the required profitability, the expected customer satisfaction, and so on.

When deriving the optimized network size and defining key locations, not only the present but also the expected future indicators should be an integral part of the decision. Technology adoption, demographic structure shifts, regulatory framework evolution, and expected economic development of geographies are all macro elements impacting the overall future configuration of the branch footprint.

Lastly, when defining the target footprint, banks need to identify the optimal balance between the expected benefits and the potential adverse risks, such as customer churn rates. Therefore, it is important not only to focus on reducing the number of branches but also to design branch networks that optimize utilization levels while proactively planning mitigation actions to reduce or eliminate potential negative consequences for the customer base.

C. Omni-channel integration

The omni-channel strategy is one of the key elements to elevating the customer experience and complementing the reduced availability of physical channels by seamlessly integrating online and offline customers’ journeys. For instance, customer journeys that begin on a digital channel (e.g., social media, search engine advertisements, or apps) can continue on a variety of digital and non-digital mediums (e.g., bank website, phone, and email) before concluding with a meeting with a financial advisor at a physical branch. This is possible thanks to the significant advancements in digital technologies, such as cloud-based customer relationship management (CRM) platforms. These provide a centralized, 360-degree view of all conversations, purchase details, and life events of each customer across all channels.

In addition to omni-channel integration, the overall product digitalization strategy is key to further reducing the need for physical visits at branches, especially for simple products and for some activities of complex products that are not adding value to the customer (e.g., submission of the loan application, physical signature). Branches could shift their focus from executing operational tasks towards advising customers with a personalized approach tailored to individual clients’ needs.

D. In-branch improvement

Lastly, in-branch improvement is the last step of a comprehensive optimization journey, where the organization within the branch needs to be aligned with the new service model.

Primarily, the composition of branch employees is then shifted toward fewer to no bank tellers, with relationship managers and advisors as the main employees. The role of tellers has evolved towards (i) digital ambassadors to help non-digital-savvy customers use new ATMs and digital kiosks and (ii) multichannel service advisors to support clients transitioning between physical and digital channels. The working style of branch tellers also evolves, where staff move around freely in the branch and serve customers in need, enabled by in-branch digital devices (e.g., automated machines, tablets). The branch ecosystem also changes towards open space and integration with digital ecosystems, with high transparency among in-branch organizations.

The in-branch organization of the branch of the future requires not only redesigning but also reskilling and upskilling. Redeploying branch employees critical to banks is enabled by reskilling (capacity building) and upskilling (training for new abilities) in both technical skills (digital, sales) and soft skills (communication, showing empathy).

**IN
FOCUS**

RB BRANCH OPTIMIZER™

For banks that are embarking on branch network transformations, the challenges can be daunting. At Roland Berger, we have developed valuable insights to guide banks in their transformative journeys and consolidated these into an algorithm-driven approach called the RB Branch Optimizer™. This broad methodology has already successfully helped numerous financial institutions around the world identify branches to be consolidated or relocated to more attractive areas, define overall branch strategy and branch models, and realize cost savings and revenue enhancements in the remaining branches. For a holistic assessment of the bank's branch network and overall market, the approach ensures that all relevant internal and external data are collected and sorted. Typical parameters include each branch's cost and output metrics, regional economic indicators

(including expected economic development of micro-locations), data on competitors, asset liquidation values, and network quality indexes. Branches are evaluated within their peer group to ensure a relevant assessment of performance adjusted for extenuating circumstances. Measures of branch performance include both financials and customer-related indicators. Finally, the RB Branch Optimizer™ suggests the optimal branch footprint based on the strategic objectives of the bank, the most effective mix of branch formats, and key productivity levers tailored for each of the remaining branches. The approach provides a solid initiation of the branch transformation journey, which can be complemented with a broader branch model redesign. In addition, the RB Branch Optimizer™ can also be used as a sanity check on the results of other optimization methodologies, which are typically developed internally by banks and are less sophisticated.

6

Conclusion: Are branch networks still relevant?

The answer to the initial key question is very clear: **branches are here to stay**. However, the branch of the future will be different in format, size, and, above all, in role.

The branch network is, and will continue to be, one of the main elements of the banks' strategic agenda. Branches will continue to be relevant for strategic positioning, comprehensive service models, effective lending and funding strategies, and geographical coverage. Most importantly, branches will play an essential role in building client relationships and will persist as the cornerstone of trust, serving as a source of psychological assurance regarding the bank's credibility, with the ultimate goal of fostering overall trust in the institution.

The transformed role of branches will be geared toward fostering relationships, where customers are advised, and where value-adding activities are provided. In this context, digital channels will handle the majority of straightforward transactional products, while branches will be dedicated to the servicing of more complex and comprehensive needs, such as bancassurance and investment products. Branches will also handle certain complex transactions that are hard to fully execute digitally, such as the structuring and sale of mortgages. However, as a clear cut between needs being served through different channels is vague, banks are deploying an omni-channel strategy aiming at seamless interactions between digital and physical channels. The shift in the branch paradigm will have to be complemented by changes across the broader organization: network design, overall channel management, commercial strategy, coverage model, digital integration and readiness, operating model, operational and cyber risks, and HR strategy.

The implications of such a paradigm shift are significant, especially for the GCC region, where banks historically used branch networks as a source of competitive advantage and where, in some countries, customers still prefer physical channels. The main implication is that branch networks have become oversized and not serving their purpose anymore, especially as the transition towards digital channels accelerates. Some banks, especially market champions, captured the emerging trend and started adjusting their geographical footprint as well as complementing the offering with digital products and, in some cases, with digital-first banks.

The transition journey in the GCC region has already begun, but it is still in the early stages. There is significant potential that is going to be harvested in the upcoming years. Banks across the GCC countries have the potential to further streamline their footprints by more than 623 branches, generating recurrent annual savings of up to USD 3.1 bn. Such potential differs across countries and banks, and the optimization pace will depend on several factors, such as the macroeconomic situation, competition and concentration level, strategic importance of the branch networks, digitalization readiness, and customer expectations. Banks that act fast, holistically, and fully integrate the transformation journey into the overall strategy and digitalization effort will be in a privileged position to harvest the maximum potential and create an impact on their market positioning.

AUTHORS

Saumitra Sehgal
Senior Partner
Head of Financial Services, Middle East
saumitra.sehgal@rolandberger.com



Dr. Luca Turba
Principal
Financial Services, Middle East
luca.turba@rolandberger.com



Domagoj Vlahovic
Senior Consultant
Financial Services, Middle East
domagoj.vlahovic@rolandberger.com



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Publisher

Roland Berger Middle East
Innovation Hub Building 2B, 3rd Floor
P.O. Box 502254
Dubai, UAE
+971 4 446 4080