BECKENHAM BRANCH, TRUST BANK CANTERBURY:
A CASE STUDY IN BRANCH CLOSURES

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Abstract*

During the 1990s, branch closures have become a routine part of bank management in New Zealand and Australia. The need for these closures has developed into a matter of public debate, and generated a public policy concern in some quarters, particularly with respect to the continuing availability of banking facilities for consumers. This paper studies the closure of one particular branch in New Zealand, the Beckenham Branch of Trust Bank Canterbury, and examines the processes involved. This begins with the rationale for the initial decision to close through to the actual closure. A survey of high value customers was undertaken five months after the branch closed, and the results have been analysed to examine the outcome of the merger in customer terms, with the findings presented here. Using the knowledge gained from this branch closure, recommendations are made as to the most appropriate management of the process.

* This paper is based on a research project undertaken by Martin Brennan, in partial fulfilment of the requirements for a degree of MBS (Banking).

1) Introduction

2) Literature review

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4) To close or not to close

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8) Conclusions

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1) Introduction

> *"(b) Beckenham*
>
> *Members were informed of preliminary negotiations that had taken place with a view to securing premises for rental on which to establish a branch.*
>
> *… Management favoured the establishment of a branch subject to favourable terms being negotiated.*
>
> *The General Manager was asked to bring forward a firm proposal."*
> (Minute from board meeting of Canterbury Savings Bank 5/8/74 pg. 220)

> *"... we must keep our distribution network cost effective and responsive to the changing shopping patterns of our customers. As a result we have now decided that... Beckenham will close, with a target date of Friday 3rd May 1996."*
>
> (Richard Westlake, General Manager Trust Bank Canterbury in a memorandum to staff, 28/2/96)

Trust Bank Canterbury's Beckenham branch was the 29th branch opened by the then Canterbury Savings Bank as part of a massive growth phase that saw the Bank, in a very short space of time, carve out a large market share in the greater Christchurch area[1]. Opened on October 10th 1977, it became only the third Trust Bank branch ever closed in the Canterbury region.

There is a range of literature on where to place a bank branch, how to market it and the overall future of branch banking itself. Yet for all the doom about the future of branch banking there is little on how to close a branch - a reflection of the very recent change in focus for the industry from network expansion to network contraction.

This issue was new for Trust Bank, more used to the positive impact of expansion than the potentially adverse impact of downsizing, and the executives had to make some key decisions without any substantial terms of reference on which to base their actions.

In many ways the closure of its Beckenham branch was a test case for the Bank, allowing it to serve as the basis from which to develop a structured approach to branch closure, where more were inevitable.

Some data pertaining to its opening and immediate results are available from the Bank's archives, and one of the personnel involved in the decisions regarding its opening was still an employee of the Bank at the time the study was completed.

There is a need to review the history of the branch and how it fitted with the strategic direction of the Bank, in order to reach a conclusion regarding the decision to close the branch, and the subsequent effects of that closure.

[1] To 41.1% main bank share according to the AGB McNair Consumer Banking Monitor Winter 1995

On the surface the closure was a micro decision in context of the operational performance of Trust Bank in the Canterbury region, but it was also the result of senior management's perception of the macro trends within the financial services industry, and the future of branches as a distribution channel.

This paper reviews the decision to open the Beckenham branch before examining trends in the banking industry which impact on the traditional branch banking structure. The viability of Beckenham branch itself is also examined as part of the review of the decision to close it. The effects of the closure with respect to both customers and the Bank are reviewed, before recommendations are made for the handling of future branch closures.

2) LITERATURE REVIEW

Interviews made it clear that Trust Bank Canterbury's senior executive were influenced by two particular publications in their decision to close the branch:

The Future of Retail Banking - Deloitte Touche Tohmatsu International (1995)

At times in 1996, it seemed this report had become the holy grail among bankers, and was mentioned as a factor in the Bank's decision to close the branch. In an interview with The Observer, a local community newspaper, the General Manager specifically quoted the Deloitte report.

What the report suggested about technology, and somewhat prophetically given the subsequent Westpac/Trust Bank merger, was that it would shrink both branches' share of the retail banking pie, as well as shrink the overall size of the pie.

> "*This will lead to wholesale shrinkage of branch networks - up to 50% over the coming ten years in fast deregulating markets.… Given the regulatory environment, this will probably be through merger*." (pg. 24)

Trust Bank Canterbury had built up a commanding market share in its catchment area largely due to its large retail branch network. However, the costs of such a distribution system mean it did not necessarily bestow a competitive advantage. Indeed, the nature of retail banking is now such that this very size makes a large bank vulnerable to new entrants using focus (e.g. HongKong Bank) or differentiation (e.g. Ergo) as a corporate strategy to attack its market share.

Trust Bank Canterbury's greatest asset had the potential to become its greatest weakness, making it vulnerable to new entrants differentiating on price and/or alternative service delivery platforms with resultant cost leadership.

Council on Financial Competition. "The journey begins - Migration beyond branch dependence" (1995)

This report introduced a number of alternate delivery channels as examples of means to move away from the traditional full service branch. The Council's most telling recommendation is its last:

> "*Migration beyond branch dependence strongly recommended for all members; degree of urgency driven by current strength of branch customer relationships, institutional need for superior growth*." (Pref. iii)

It notes what it calls the loss of the retail banking franchise as new entrants target both depositors and borrowers, and highlights three key points: a 17% growth in investment product growth against 0-8% deposit growth in the period 1990-1994; an assessment that a branch based customer returns US$1560 against US$3412 for accounts managed out of branch; and a consistent fall in the average return on equity (ROE) for branches, from 45% in 1980 down to 14% by 1994, and estimated at 5% by the year 2000 if the current branch structure is maintained.

Although driven out of the United States the economic fundamentals behind these trends apply in New Zealand due to the globalisation of the world's financial markets.

3) BECKENHAM BRANCH - A SHORT HISTORY

New bank branch in Beckenham

A new branch of the Canterbury Savings Bank was opened in Beckenham yesterday by Mr John Kirk, member of parliament for Sydenham.
The branch at 147 Colombo Street is the 29th to be opened in the Canterbury area since the CSB was established 15 years ago.
The branch manager is Mr P Rigg formerly of the bank's New Brighton branch. He will have staff of about 3.

(Christchurch Press 11/10/77)

It appears the opening was not big news in the world of finance. An edited press release was shunted on to page six of the paper and, consistent with the conservative way the Bank went about doing business at the time, there was no supporting advertising regarding the opening.

Looking at the demographics of the area at the time it is difficult to imagine the need for a branch let alone "about 3 staff".

Beckenham Demographics[2]

Population	Beckenham	2,153	
	Heathcote County	8,758	
	Total	**10,911**	
Employment	Wage & salary earners	3,463	31.7%
	Self-employed	303	2.8%
Home Ownership	Unencumbered home	1,274	
	Home with mortgage	1,548	
	Rented	487	

With 45% of homeowners having no debt on their homes there is a tenuous link to the substantial deposit fund growth as evidenced next. The catchment area population had grown by 15% as the upper hills of Cashmere (part of Heathcote County) were developing and the boundaries of Christchurch City were being pushed out. The then CSB had a strategic plan to open branches to build market share. This, in conjunction with the need to reduce volumes through the Sydenham branch, suggests the rationale at the time to open this branch was valid.

Marian Piper was employed as a teller the day the doors opened and, ironically, was there to close them for the final time 19 years later as its Manager.

[2] From the 1976 census

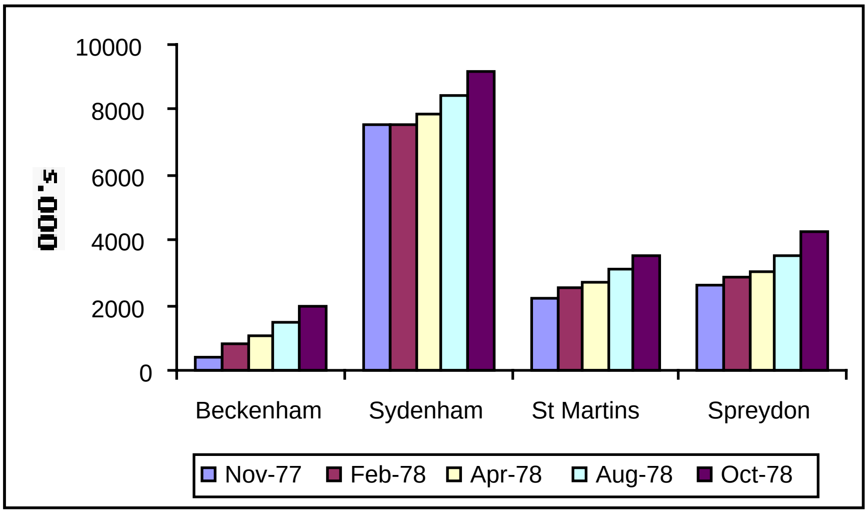
"In 1976 Sydenham branch where I worked was an extremely busy branch. It had queues particularly during lunch times that would go to the back wall. There would be 10-15 people per queue and there would be 10 tellers serving.

Because of the overloading at Sydenham it certainly was necessary to be looking at additional branches in the area to be able to reduce the overloading of Sydenham. (Piper, 1996, October 10)

She went on to recount that deposit growth in the early months was substantial, with around 20% of it "new money" in her opinion - archival data backs this up.

The first report to the board after opening, advised that the Beckenham branch accounted for a mere $8,720 (actual) of the bank's deposits, some 0.01% of its total funds. It is helpful to compare the branch's growth with that of its neighbouring branches.

Funds Growth[3]



In its first year of operation the Beckenham branch had built up a deposit level higher than six other CSB branches. All the branches under review maintained growth, although Sydenham's share of Bank deposits was steadily falling as Beckenham branch tapped into an area previously served by Sydenham. After two years of operation Beckenham held depositors' funds of nearly $3.5 million (around 1.50% of the Bank's deposit book).

[3] Source: Board minutes

4) THE DECISION TO CLOSE

Although not apparent at the time, Beckenham's fate was effectively determined in early 1992, at a planning weekend where executives addressed the impact of new technologies, and benefits that could be achieved accordingly.

> *"The existing growth in the Bank's business, coupled with the high cost of across the counter transactions and the restricted space available within our branches, makes it urgent that we encourage our clients to transfer their mundane transactions to a more efficient and cost effective card based facilities."*
>
> (Trust Bank Canterbury Strategic Plan 1992/93)

Two objectives arose from this meeting, as detailed in the strategic plan:

- Reduce the cost of transaction delivery and enable increased business volumes to be achieved with minimal increase in premises capacity.
- Improve efficiency by electronic banking thrust.

Richard Westlake, General Manager, started a review of the Bank's branch network in September 1995. Aware of growth in telebanking and other electronic services he had concerns that the branch network, so crucial in building Trust Bank Canterbury's market share, was now becoming cumbersome. The two publications previously cited were then current, and were also an influence.

> *"I think reading the Deloittes thing back in July / August last year [1995] was probably what made me start focusing on the branch network as much as anything else. Where the forecast was by the year 2000, banks will have half of the branches as they do today.*
>
> *… Beckenham was a huge catchment for the hills. The other thing we looked at was saying well what are the alternative branches for these people if we close it, are we actually cutting off delivery outlets for them? The answer is quite clearly no, we still had a catchment of three Spreydon, Sydenham, St Martins and most of these customers were going past one of these branches at least and if they didn't want Sydenham they had South City, still failing that they had the city branches."*

Rob McGregor, the Area Manager responsible for Beckenham branch, held similar views.

> "*We started getting information like the Deloitte's paper which talks about the retail future of the bank industry, then we started getting the Bank concentrating more and more on productivity ratio, income and outgoings.*
>
> *We looked at the changes in the rapid expansion into electronic banking, more and more people using EFTPOS, Cashflow machines, Telebank etc. It comes to a point where the realisation comes (that)*

we have to look at our old cost structures because all of these things have happened.

… Beckenham was clearly a surplus."

The decision to close the branch was based on the macro issues of technology, changing customer behaviour and bank costs, and backed up by analysis requested by Westlake. A report was commissioned to address profitability issues, use of alternative delivery channels by Beckenham customers and potential savings and losses from a possible closure - extracts can be found in Appendix I.

A deficiency of this report is the lack of review of how effectively the Bank's capital was being used at Beckenham. Ultimately any shareholder measures their investment on the returns achieved & bank executives seek to maximise their capital returns by allocating it for the best returns, subject to risk constraints.

As branch reports do not include assets such as land, buildings and fixtures, a pro forma balance sheet has been constructed (refer Appendix II) to assess capital costs, including all assets and liabilities. A mismatch exists between deposits and borrowings, ($36.447m and $29.411m respectively), with the "deficit" reflecting the branch's ability to attract deposit funds in a reasonably affluent area.

On a risk weighted basis the assets committed to Beckenham required the following capital commitment from the Bank.

	31/3/94	31/3/95	30/9/95
Lending (Housing at 50%)	12931	13164	13235
Lending (non residential 100%)	3527	3254	2941
Fixed Assets	712	712	712
Total	17170	17130	16888
Assuming a 9% capital requirement	1520	1541	1520
NPBT[4]	207	559	340
RORWA	**14%**	**36%**	**22% (6 mths, not annualised)**

The RORWA shows a substantial improvement, and reflects the heavy concentration in residential exposures and the risk weighting of these advances at 50% of exposure levels.

Just on 63% of Beckenham customers had access to ATM/EFTPOS, slightly lower than the Bank average of 66.4%, and a similar trend existed with access to Telebanking by 24.5% of customers against the bank average 27.1%

[4] It should be noted that this analysis makes no allowance for any internal transfer pricing by the Bank. Because of the excess deposit funds, branch profit is likely therefore to be understated in these figures.

In dollar terms Beckenham branch was clearly profitable - a half million dollar contribution to the Bank for the March 1995 full financial year and a RORWA increasing is not an unreasonable return - and there was some surprise from line managers at the closure decision.

Yet all the profitability ratios, except return on RORWA, showed that results were tracking behind the Bank average. Both deposit and lending growth had slowed - in the case of lending the mature nature of the loan book was starting to show with negative growth.

The mix of the branch balance sheet was heavily disposed towards traditional home mortgages at 90%, with traditional term deposits accounting for 73% of assets. The question has frequently been asked - in a deregulated financial services industry such as in New Zealand is the branch network the most efficient way of sourcing and maintaining both domestic mortgages and retail funds? If one accepts the premise that it is not, then Beckenham clearly met the profile for a branch that could be closed.

In simplistic terms if Beckenham branch could be closed and its customer base, investments and borrowings retained[5] by integration into other branches and/or through other delivery channels, then the $500k profit could be enhanced further.

NPBT	3/95	559 (all profit)
Add Back:	Staffing costs	333[6]
	Occupancy Costs	92
	Quasi "Profit"	984

Like all banks the executives were seeking ways to cut costs and lift the bottom line in the hunt for an improved expenses to interest income ratio. One can well imagine how attractive such a pro forma exercise would have been to regional management.

Literature on processes for closing a branch was limited, but one good article which offers a quasi check list on assessing areas for branch closure is Rose (1986). He suggests the most likely candidates for closure or consolidation are the smallest branch offices that have been identified as problems. According to Rose, a branch office is a serious candidate for closure or consolidation if it:

1) is below estimated break-even size in total deposits with little prospect of reaching it;
2) has had a sharp slowdown in deposit growth 3+ years;
3) has become inconvenient to most customers due to shifting traffic routes;
4) presents obvious safety risks for customers and employees;
5) is situated close to another branch offering the same services and customer profile.

[5] As stated this approach to branch rationalisation assumes customer retention. This will be covered in more detail later in this paper.

[6] This assumes that staff would be exited. In the case of Beckenham all staff were retained. However the argument that there is a staff saving remains valid given that in time, across the Bank as a whole through attrition, this result is achieved.

Looking specifically at Beckenham branch in terms of Rose's criteria, we find:

1) It was profitable, but it appeared closing the branch could increase the Bank's profit, and therefore the return on capital on Beckenham branch as a stand-alone operation was not sufficient.
2) Deposit growth had slowed substantially over 1994/95. Furthermore, the bank considered it possible to successfully source growth in the area by cheaper means (including mobile managers, and teleservices) thereby providing grounds for closure even if growth levels were adequate.
3) Changing traffic and community patterns were a key factor for Beckenham branch. In Richard Westlake's view Beckenham no longer met the profile for branch location:

   > "*The thing all these branch closures have in common to my mind was that they were within those suburban shopping centres, which frankly are just losing patronage hand over fist as people are just going to the big malls and if our customers aren't going there then, or they are going there only out of habit to use the branch they have always used, which is the way the customers at Beckenham looked to me, then what are we doing there. I don't believe that we have a social responsibility to prop up the dying shopping centre. A lot of people have written to me and said we do*."

   Rob McGregor was more inclined towards the view that trends were away from areas such as Beckenham towards areas where supermarkets were, stating:

   > "*Looking at a map it seemed likely to me that all those people round there would have a preferred choice of supermarkets or shopping centres."*

   In this case there was clearly migration away from Beckenham to nearby branches in Spreydon and St Martins, both located next to supermarkets.
4) Although Beckenham had been subject to an armed robbery some years ago it was not considered high risk.
5) Beckenham branch was close to the aforementioned St Martins and Spreydon branches, as well as the large Sydenham branch (remembering that Beckenham branch was originally opened was to take pressure off Sydenham branch).
   The travelling time and distance from Beckenham branch to the nearby branches was[7]:

	Time	Distance
To Sydenham	2 minutes	1.5 km
To St Martins	4 minutes	2.8 km
To Spreydon	3 minutes	1.9 km

Whilst of little consolation to those without transport, the increased travelling time and distance is nominal.
Therefore, Beckenham met **four** of Rose's **five** criteria.

In May 1994 The Advisory Board Company reviewed branch closures. In its research summary it advised.

[7] In a car, measured at 11am on consecutive days.

> "*In determining whether or not a branch should be closed, banks usually consider factors such as the market's potential for growth, competitor presence, negative financial income over an extended period, potential deposit losses from closure and declining customer transaction volumes. According to a majority of the banks interviews, financial unprofitably is not the most significant factor in closing branches due to the fact that, most importantly, banks want to maintain their presence in important markets and retain as many customers as possible*." (pg. 2)

The report addresses the issues such as ROI and ROE but a review of six contributing banks shows remarkable consistency in the issues they addressed when considering a branch closure. All mentioned trading losses as a major issue and saw lack of further growth as a key issue. Only one saw community needs as an issue while three cited proximity as a determinate, and three saw static/falling deposit funds as a factor.

Growth was certainly an issue with Beckenham, with other channels seen to offer greater cost efficiency, and Beckenham certainly had three other branches in close proximity. Therefore the decision to close Beckenham was supported by The Advisory Board Company's research.

Carroll (1992) identified as key issues in branch location the volume of business available within the location's boundaries, the number of competitors' branches there, and the profit potential. As discussed previously, Beckenham had limited opportunities to build on the market share it held, and there were two competitor branches in the area. As well, the profit potential looked better in the event of closure. Therefore in terms of Carroll's issues, the location at Beckenham was not a good choice for a new branch, and must at least appear doubtful as a location for an existing branch.

Notwithstanding the data, industry reports and executive need to reduce costs, Beckenham ultimately closed because it had outlived its industry life cycle. Opened to take pressure off the nearby Sydenham branch and to tap into the market of Beckenham and surrounding areas it had succeeded in both, but the evolution of ancillary banking services that reduced branch usage and the market share held meant those reasons were no longer valid for continued operation.

The closure was inevitable given the changes in banking both globally and locally in addition to management's need to reduce expenditure in pursuit of its objective of reduced expenses relative to income.

Beckenham branch could have remained open for some time and returned a profit to the Bank, but the implications of these winds of change were correctly identified by the executive and justified the closure. The subsequent decision of both the BNZ and ANZ Post Bank to close their respective agencies in Beckenham a short time later supports Trust Bank Canterbury's decision.

5) THE CLOSURE PROCESS

> "It is important … to track the actual result of any closure … to ensure that the desired result of any branch closure is actually achieved. This would then provide a base to judge the relative merit of other branch closures. *Work should also be done to ensure the higher net worth, or most profitable customers are handled carefully to ensure we do not lose the most profitable customers as a result of any branch closure".*
>
> (Trust Bank Canterbury report, emphasis added)

Other than for the purposes of this research, no tracking or systems management was put in place to track results. Accordingly, issues such as retention or account run off have not been measured other than hearsay reporting from surrounding branches. This in itself is insufficient foundation to provide the base for future management of closures, as the report suggested was needed.

The Bank considered it desirable to tell its top customers[8] of the closure by mail, intending the letter to arrive the day before the signs went up. Copies of the letter and the sign appear in Appendix III and IV respectively. The first problem, particularly in respect of the letter, is the impersonal approach. The focus is on macro issues and the changes observed by the Bank, although the customer may not be aware of these changes. Finally, the customer is told that as Sydenham is the Bank's closest branch their accounts will be transferred there unless the customer specifically requests. Appendix V and VI contain a proposed alternative letter and closure notice, respectively, which convey similar information but are more customer friendly.

> *Bank of New Zealand*
>
> *30 August 1996*
>
> *Dear Customer*
>
> *<u>Closure of Edgeware Service Centre</u>*
>
> *Bank of New Zealand customers are making significantly greater use of electronic banking such as money machines, EFTPOS, and telephone banking. This has already effected the commercial viability of smaller outlets and the use of electronic and telephone banking is predicted to continue to increase.*
> *As a consequence and given the proximity of the Merivale, Shirley, Armagh Street and other BNZ branches, we are closing our Edgeware Service Centre on Friday 20 September 1996.*
> *A full range of banking services including access to Business Managers, Personal Bankers and international, will be available to you at the above branches which are less than 3 kilometres away.*
>
> *Harry McLennon*
> *Regional Manager*
> *Christchurch Central East*

[8] Identified as those with assets greater than $250,000 and income above $40,000 pa, depositors with large balances, and other key influencers identified by the branch manager

The Bank was not alone in this approach, and similar letters were posted by various banks on the doors of branches marked for closure. The above example, from the BNZ, is equally impersonal, being posted on the doors on the branch in question and is general and sweeping in its comments regarding the use of other services by customers, which are of little consolation to those who do not use these services or prefer the use of a branch[9].

Just as the opening of the branch was barely newsworthy in 1977, the Bank's media release made page four of the Christchurch Press on February 29th 1996.

Trust Bank closes branches

Trust Bank Canterbury will close its Ilam and Beckenham branches after a drop in patronage fuelled by changing banking and shopping patterns, general manager Richard Westlake says.

He said that staff were told of the closures yesterday and had all been offered redeployment to other Trust Bank offices. No jobs would be lost.

The boom in malls as shopping venues has led to a drastic reduction of activity at a number of bank branches in recent years.

"There's no doubt about it- people are off to the malls and using more electronic banking too", said Mr Westlake

The Trust Bank ATM machine at Riccarton Mall was the busiest the bank had in Canterbury and among the busiest in New Zealand.

The other constant factor that Trust Bank and other banks had to deal with was the extremely competitive nature of banking and the battle for market share.

This was fuelling the introduction of more "customer friendly" services such as electronic and telephone banking services.

Trust Bank had made a strategic decision not to pull out of country towns in recent years.

As a result, it was now often "the only bank in town", said Mr Westlake.

The only subsequent action was to actually undertake the closure. This required the transfer (electronically) of the customers' accounts following the closure of the branch, and the physical transfer of the branch fittings. In addition, the staff were transferred to their new positions at other branches.

Between the time of the initial announcement and the actual branch closure, staff at various locations were required to deal with customer enquiries, but with minimal guidance on how to do so.

[9] These comments can actually reinforce a reluctance among some customers to make use of the electronic banking services for fear of losing their local branch facility.

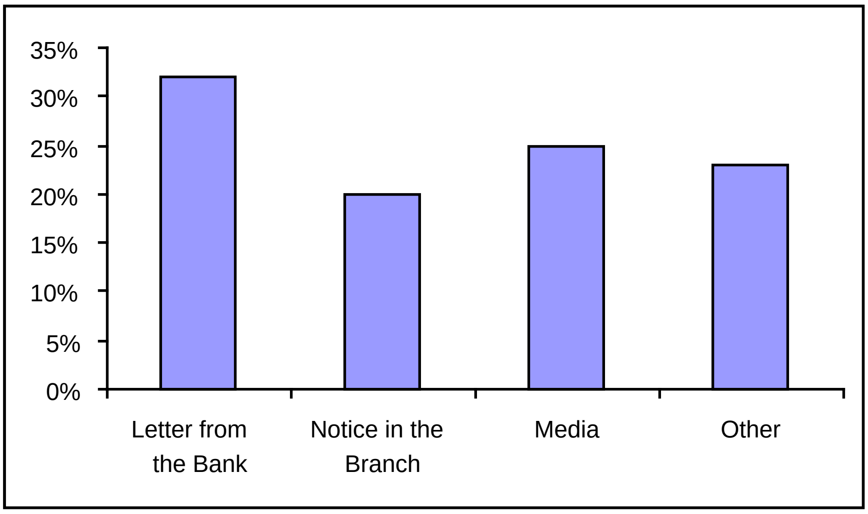
6) THE SURVEY

In September 1996, a questionnaire was sent to all former customers of the Beckenham branch who met the criteria of having $40,000 in either investments or borrowings[10]. The questionnaire was designed to explore specific issues, including:

* How did the customer find out about the closure?
* What was their reaction?
* What changes have they made to their banking habits?
* Customers understanding of changes within the industry

The return of 104 of the 320 questionnaires distributed represents a response rate of 32.5%[11].

Q1 I heard of the decision to close, firstly, by:



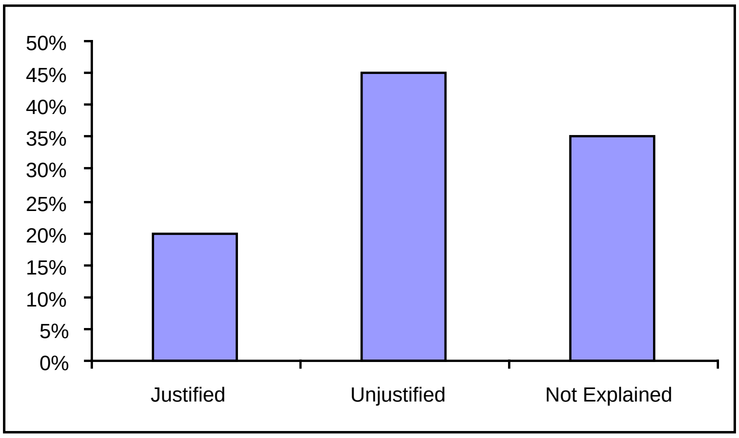
Given the process adopted by the Bank, it is surprising that less than a third (32%) of the branch's valued customers first heard of the closure by letter, with the balance learning of the closure from non-personal sources. This is not compatible with a Bank seeking to manage change positively and it is possible that the way in which customers found out contributed, in part, to some of the negative responses in later questions.

The Bank sought to pre-empt an adverse media response by advising the media direct in an attempt to control the event. Whilst this approach has some merit, in

[10] This figures was chosen as it was deemed by the Bank (now part of the merged organisation which would become known as WestpacTrust) to be the threshold at which a customer is deemed to be valued.
[11] It is possible that the level of negative responses regarding the closure is overstated, as a result of unhappy customers using the questionnaire as a forum of airing their views, while happy customers had less incentive to participate.

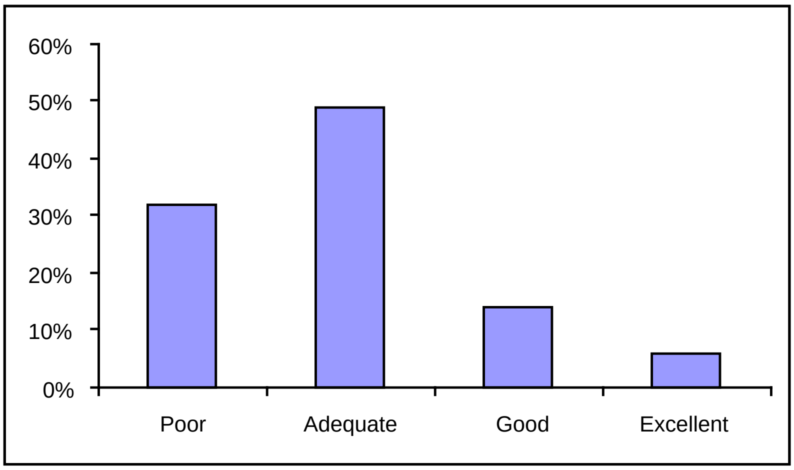
Beckenham's case it led to the high percentage of customers finding out via the media[12].

Q4 The Bank's reason for closing the branch was:



In many ways this was the litmus test of how the Bank handled the announcement of the closure. It is of concern that 80% of respondents considered the closure was unjustified or not clearly explained, indicating a possible retention problem.

Q5 The Bank's communication of the closure was:



The Bank can take some heart that only 32% of respondents felt the overall communication was poor, but at the same time less that 20% felt that it was good or excellent.

It is important to look at the changes in customer behaviour following the closure of the branch, in order to determine the success or failure of the processes used. In looking at these changes, where and how customers transacted their banking business were the key issues.

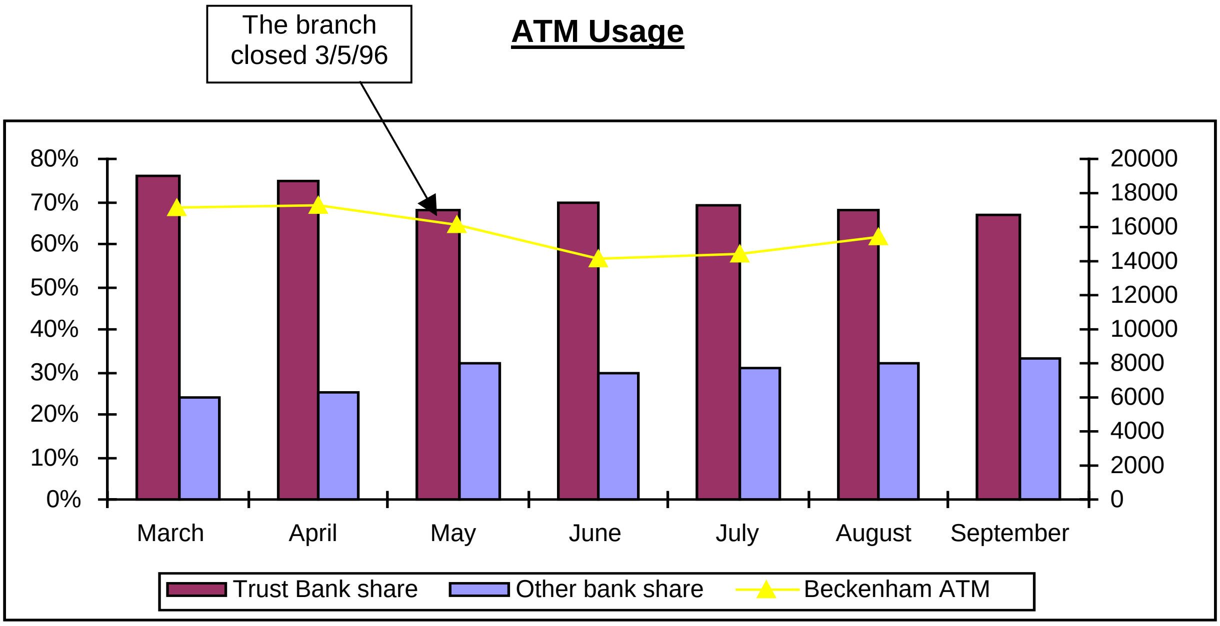
[12] In subsequent closures the Bank has waited until letters have been sent before advising the media which shows that the Bank is prepared to both acknowledge and learn from its mistakes.

Following the branch closure, 55% of respondents indicated they were using branches less frequently.

At the time of the initial closure decision it had not been intended to leave an operational ATM in the Beckenham area. However, following representations at regional level a decision was made to retain the existing ATM in the branch premises (rather than at another nearby location).

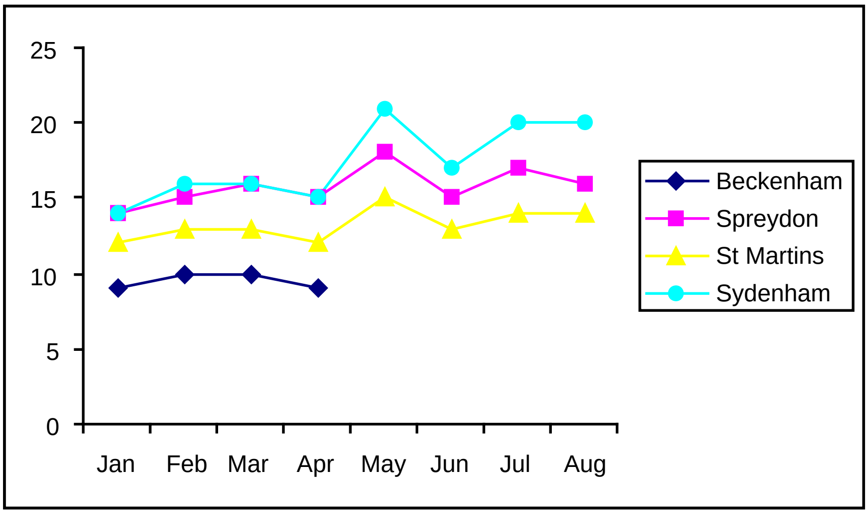
Perhaps surprisingly, there is no evidence of increased ATM usage in Beckenham, with a clear decline in usage post-closure being shown – and the Trust Bank share of transactions at the ATM declined.

ATM Usage



Despite this decline, retention of the ATM could be justified, in the short to medium term at least, as part of the transition from branch closure – it retained a physical Trust Bank presence in the Beckenham area and was consistent with a policy of gradual migration.

Counter Transactions Levels (1996)

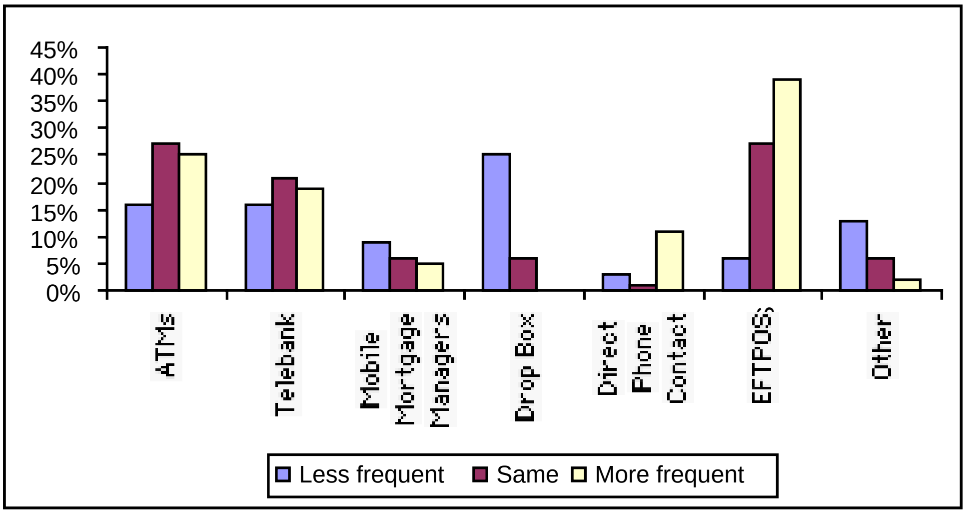


The change in transaction levels at the neighbouring branches shows the burden of transactions post-closure was borne by the two smaller branches, as well as Sydenham where most accounts were transferred at closure. The inequity of the situation is confirmed by the increase in average transactions per teller per day at the three branches, with Sydenham having an increase of 15% between March and May, while Spreydon and St Martins had an increase of 14% and 46% respectively over the same period.

One reason for the rise in transactions may be the proximity of the two smaller branches to supermarkets, as 32% of respondents either agreed or strongly agreed that they included a branch visit with other activities such as shopping.

Nor does it appear that ATMs in the surrounding areas picked up overflow from Beckenham. In August 1996 ATM usage, compared to March 1995, was down 12% in Sydenham, 10% at St Martins and 16% in Spreydon. The assumption is that customers were making increased use of EFTPOS, a view substantiated by the following:

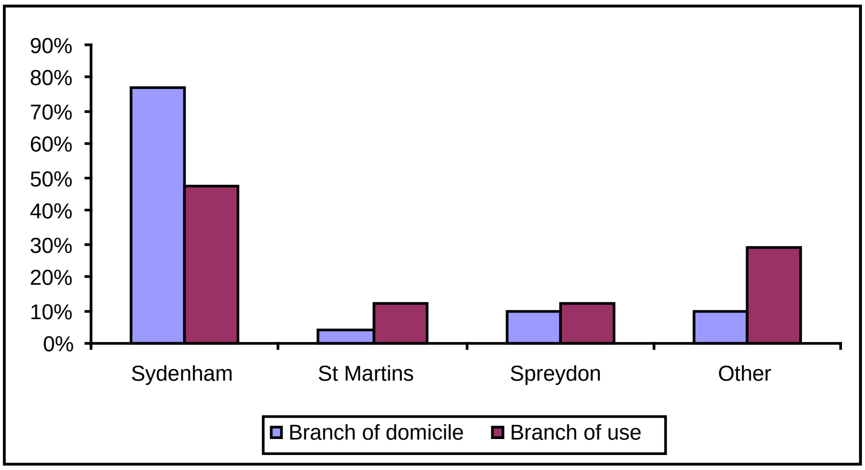
Q7 Since the closure I have used:



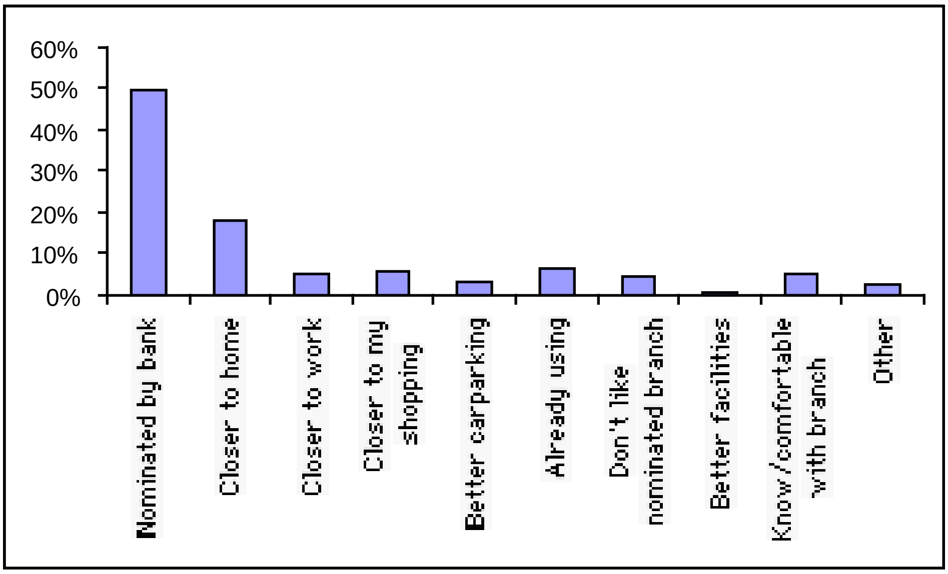
There is clear evidence of the former Beckenham customers migrating away from the branch as a way of transacting their banking requirements with 55% of respondents acknowledging they use a branch less and increased EFTPOS, Telebank and ATM usage. This appears to support Westlake's view that using the branch was a habit.

It soon became apparent that a number of former Beckenham customers were transacting at other branches, in particular the smaller Spreydon and St Martins branches, although they had allowed their accounts to be transferred to Sydenham, and this was placing strain on these smaller branches. Although 77% of respondents sought or allowed their accounts to be domiciled at Sydenham only 46% actually use the branch. This led to inappropriate resourcing of the branches, as that was done on the basis of branch of domicile.

Branch of domicile and use comparison



Not surprisingly, given the above, most respondents chose their new branch because it was the one nominated by the Bank.



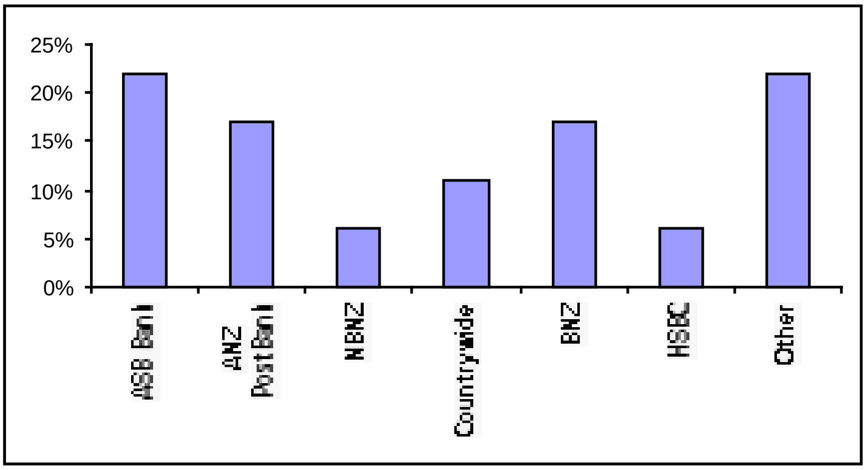
The next key determinate post closure is to monitor the effects on the assets and liabilities held by Beckenham at the time of closure, given that part of rationale behind closure was the belief that the branch's historic profitability and customer base could be retained at a level that justified closure. Did it?

On the day of closure Beckenham held 5,547 accounts. It had investments and credit funds of $27,983,475 and advances of $19,605,903. Four months later only 89 accounts had been lost (and this would include customers rationalising the number and type of accounts they held) credit funds had increased to $ 28,677,147 (+ $693,672) and advances to $19,614,476 (+$8,572). Given that during this period Trust Bank New Zealand was purchased by Westpac, this level of not just retention but growth, vindicates the decision to close.

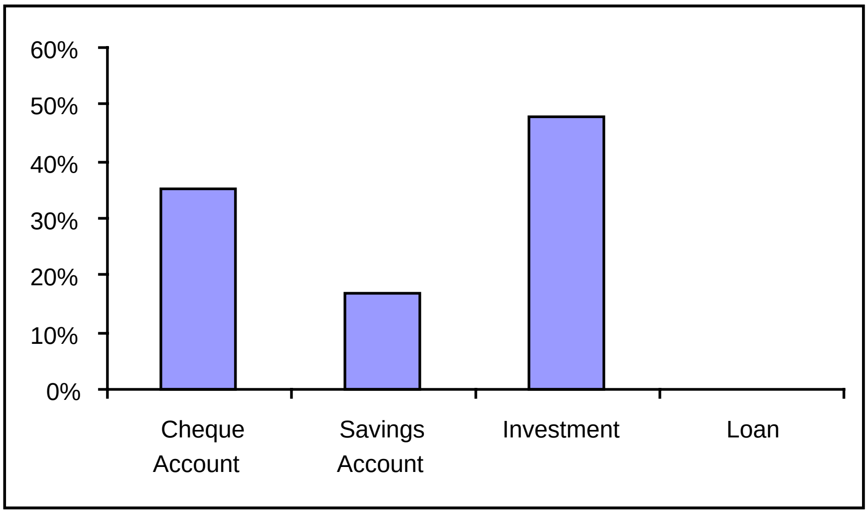
In comparison with best practice the result is far higher than the 90% high identified by the Advisory Board.

Only 17% of respondents had reduced the level of their business with the Bank, while 18% had or intended to open an account with another financial institution. Of the latter, 76.5% claimed that it was a direct result of the decision to close the branch. However, no one institution gained a significant share of this business.

Other financial institutions at which accounts were opened:



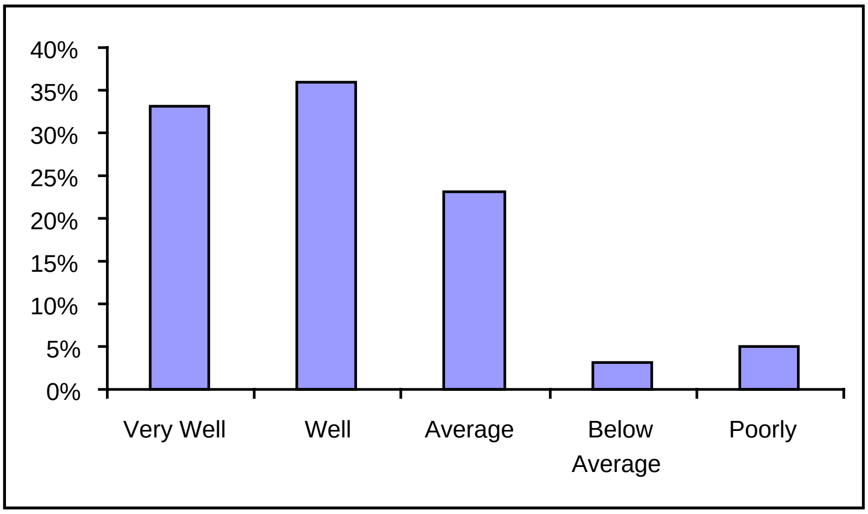
Type of account opened:



The low number of responses means no significant conclusion should be drawn from these questions, but it reinforces the emotive aspect of branch closure. Why else would accounts be opened at six institutions who have no branch presence in the area and only one closer than the nearest other Trust Bank branch?

The survey confirms other internal reports that there was little evidence of loss of total banking relationship. Whilst total wallet share came under pressure in some areas the amount was minimal. In many instances customers took the opportunity to rationalise the number and type of accounts held, another plus for the bank!

Respondents were generally happy with the Bank's handling of the closure and the transfer of their accounts:



All evidence presented suggests the closure was successful. There was minimal account loss, and, more importantly, no decrease in lending and deposit levels. Research data and comments from line staff suggest that Beckenham customers increased usage of non branch delivery channels thus reducing further the cost to the bank in terms of transactional costs.

There was perhaps a misjudgement of which branches customers would use and this saw higher than anticipated transactions at St Martins and Spreydon, but overall the migration went exceedingly well.

7) THE LESSONS

On the face of it there appears to be minimal effect from the closure, but there is a sense that it could have been handled better. It is unlikely borrowers would change bank on the issue of the closure alone, due to the costs involved, but it could be a factor in the future when additional or new funding is required. Investment and other deposit funds are more portable, although the closure may simply have been one more cause of dissatisfaction leading to account transfer, rather than the sole cause.

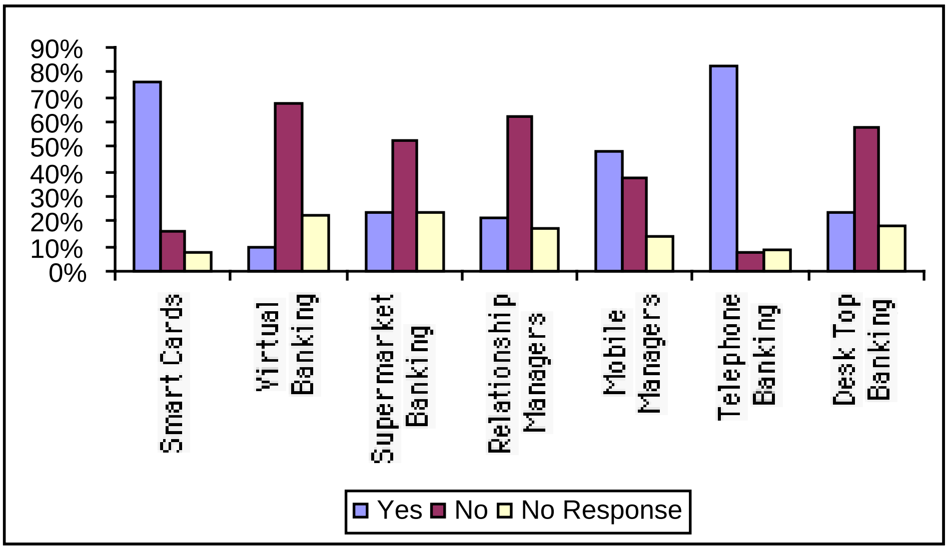
This paper has a two tiered approach to the issue of branch closures, beginning with the means by which a bank could deal with the macro issues in context of the changes happening in the retail banking sector. On a micro basis a structured format is proposed for the announcement of a branch closure to customers. In addition, suggestions are made on the handling of the transfer of these customers.

The Macro

In discussions with customers and non-bank customers alike, it became clear that consumers are not aware of many of the changes that are occurring. It is therefore important to educate customers on the evolution of the banking industry on a regular basis. There is a need to create an environment of change in the minds of the bank's customers, and this is the joint responsibility of senior executives together with the front line staff. This culture of change needs to be handled proactively.

As bankers we live in an environment of change and it appears a gradual, progressive evolution of banking. To customers, however, the changes appear sudden. Whilst they progressively pick up on new services such as ATMs, EFTPOS and telephone banking the "sudden" closure of a branch, which is the direct result of them picking up on the alternate delivery systems, is not seen as a practical and positive result of change but as a negative.

Customer awareness of recent distribution developments



Customers are very aware of some of the new services that banks have available, such as telephone banking which some banks have promoted to their customers very heavily. However, there are also new delivery channels of which few customers are aware, in some cases reflecting their newness or specialised nature.

Banks have sought to reduce expenses through cheaper, alternate delivery systems, but there remains an expectation of almost duplicate services from customers, i.e. retention of a branch distribution network with the new service delivery channels offered on a parallel basis.

Banks are currently faced with what could be termed the problem of ‘technology creep’. Customers take up technologies on offer such as EFTPOS and telephone banking yet at the time of a branch closure are not really cognisant that they already do, or have the ability to, have access to banking services which is equivalent or possibly even superior to that provided by small branches. However, over 50% of respondents affirmed the desire to maintain personal contact with their bank, and this is a constant theme in customer comments regarding any branch closure, irrespective of the frequency with which they actually visit the branch in question.

In many ways the results of the questions regarding customers understanding of changes in banking, whilst not perhaps surprising should be of concern to strategic bankers who have a branch network as a major part of their distribution strategy. Interestingly 84% of respondents have heard of telephone banking yet only 24.5% of Beckenham customers used that channel. Whilst product sales are a component of annual branch targets perhaps more focus should be on the cross selling of alternate delivery channels such as telebanking especially branches identified as having the potential to close or be down sized in the future[13].

As mobile mortgage managers were a relatively new service for Trust Bank customers it is not unexpected that awareness was limited to 48%. Logic suggests that a trained manager who calls on a customer at their time and choosing and is empowered to make approvals is an improvement on having to visit a branch and equally as personal. This is a simple example of improved delivery of service that may not be seen that way by customers.

Although only 24% admitted awareness of supermarket banking, it could be argued that those who were now transacting their banking business at St Martins and Spreydon branches were, in effect, using a generic version of supermarket banking as a platform for transactions and product sales. This was another example of customers using, without being aware of it, products and services that when asked about they fail to appreciate and acknowledge.

For banks to successfully migrate customers from the branch they must sell not just the product itself but the intrinsic benefits associated with it. This way such products and services are seen as added value to the client and not as some believe, just a way for banks to reduce costs.

Banks need to create a mindset of acceptance among its customers. If the changes in the financial services sector are so clear why not start the process of informing customers of these changes now rather than at the time of a branch closure.

i) Use of General Manager/Change Manager: In 1996 Richard Westlake, General Manager of Trust Bank Canterbury, undertook a road show, visiting bank staff and discussing industry changes. This was well received, and for many front line

[13] However, customers in these branches may be reluctant to utilise these channels for fear of hastening, or even causing, the demise of the branch.

staff was the first coherent explanation for the changes occurring, both at branch level and across the Bank.
All opportunities should be taken to deliver a generic version of this type of presentation to community groups, customers, and other professionals such as accountants and solicitors.

ii) Advisory Board: Post merger WestpacTrust has retained the use of these advisory boards, comprising community and business influencers who are well placed to see both sides of the issue being a link between the Bank and its customer and community base.

iii) Use of Relationship Managers: These managers are the face of the bank, and have the direct contact with the customers. It should be an important part of their role to ensure the customer is informed of changes that are occurring.

iv) Newsletter: Larger sales and service organisations are using newsletters included with invoices etc to inform customers as to activities. This type of contact is consistent with managing high valued customers and would serve as an aid in educating change. The distribution cost could be minimised by including it with bank statements.

v) Booklets: There is a wealth of information on changes in the industry. Two influences in the decision to close Beckenham were the Deloitte and Advisory Board reports, both of which are easy to read publications for banker and non-banker alike. The Bank could develop a generic publication for New Zealand conditions available for staff and customers alike.

The day after the questionnaire was posted a phone call was received from one of the recipients. Too busy to answer the questions he was more than happy to pass on his thoughts regarding the closure. Not prepared to give his name he advised he had been a Trust Bank customer for over 20 years and a substantial investor and he felt the decision to close the branch was a disgrace.

On asking why, he said his main reason was the subsequent lack of service and the effects on the staff at Beckenham. He was advised that no staff had been made redundant, and they had been placed in nearby branches. On the issue of service it was noted that his accounts were now being managed by a relationship manager who rang him frequently. Towards the end of the call, he admitted that in fact the service he was now getting was superior, as it was more personalised and proactive than using the branch. But the decision to close was still a disgrace!

It is to prevent this sort of response that banks need to give serious consideration to educating customers as to changes happening.

The Micro

In the early stages of the Westpac/Trust Bank merger, managers spent some time reassuring Trust Bank customers that the merger would have no adverse impact on them and that it would be business as usual. For many customers their reply was that they weren't particularly worried about the merger but if the Bank made redundant their favourite teller, customer services officer etc, watch out.

Any bank should take it as a compliment that customers hold branch staff in such regard, and this response is consistent with overseas research. In a report commissioned July 1993 The Advisory Board sought to identify key issues pertaining to retention at a time of closure.

> "*Institutions unanimously agree that branch staff members' job security impacts customer retention rates. While institutions do not maintain methods for specifically measuring the relationship between employee job security and customer retention, they believe that positive attitudes by employees towards branch closures lead to positive customer attitudes towards branch closures*." (pg. 6)

Trust Bank has been fortunate in its closures as non-management staff have been redeployed, and this trend should be maintained with staff "carried" and natural attrition used to eliminate overstaffing in time. As well as media statements advising continued employment there may well be grounds to disclose the absence or redundancies to staff in advice letters to customers.

Of all the actions pertaining to the closure of the branch it is how customers were notified of the closure that was perhaps deficient. Similarly the identification of account transition to a new branch was inflexible leaving limited options to managers trying to identify customer movement and resourcing accordingly.

The whole process is seen as a reactive one - reactive to changes within the industry and reactive to changes at a local level. Other than proforma statements about moves towards technology little was done to sell the benefits of closure. Branch rationalisation is seen as a benefit for the Bank, not necessarily its customers.

No attempt was made to personalise, on an individual basis, not just the decision to close but the products and services available to the individual that best suited their needs and expectations. Had such an approach been taken it is likely that customers would have identified technological creep and seen substitute services as a way of maintaining "personal" contact with their Bank.

There would be little argument that only 32% of the Bank's valued customers being informed by personal letter is unacceptable. Nothing less than 100% contact with customers deemed to be of value should be acceptable.

In the case of Beckenham branch there were 320 customers deemed, for the purposes of this paper, to be of value. Branches most likely to close in the medium term will be smaller ones with similar numbers of valued customers, which is at a level which can be managed personally to ensure customer satisfaction.

Recommended Procedure

Upon a decision being made to close a branch the following procedure in communicating to customers is recommended.

Letter: It should be personalised, user friendly and proactive. An example is attached as Appendix V, and the key paragraph is:

> "*Later this week I/one of our staff will contact you to discuss your personal banking requirements and any other issues you may have regarding the closure*."

The letter should be signed by either the branch manager or the manager/ officer directly responsible for the customer.

Use the telecentres: Most banks operate a centralised call centre, which can be used to make telephone contact with all customers not being contacted by a line manager. Appendix VII has a suggested call sheet, listing call options depending on the customer's response.

The use of professional staff with good telephone and sales skills would enable the Bank to identify any customer retention issues. Note that part of the programme would allow referral to management if needed. Database information would provide call staff with details of the products and services each individual customer has, highlighting the services either already used or which could be used in lieu of a branch.

The survey showed 67% of respondents raised their questions with lower graded line staff, but enquiries could be referred direct to the manager[14], together with any issues the call centre has been unable to resolve. Direct contact would assist in limiting the adverse response from a branch closure.

Follow up call: The call process to be repeated approximately 1 month after branch closure by the call centre, where possible with the same staff member who made the original telephone call. This would be to check that the transition to either a new branch domicile and/or use of new services has gone smoothly.

One should not underestimate the fact that a number of these calls will generate negative comments regarding the branch closure. In many cases the most reasoned reply will not reduce the customers' dismay regarding the closure, given the emotive issues sometimes related to branch closures. However, giving the customer an opportunity to voice their opposition can be equally valuable.

Branch Management post announcement

> *"We found that all of the staff were getting tied up every day and getting sick of having to answer all of the customers queries. It was very wearying on them and of course also the customers being very negative it was very hard living with that negative environment everyday."*

[14] This does not suggest lower graded staff are unable to deal with these enquiries satisfactorily, with less than 14% of respondents rating the response to their enquiry as poor. However, a response from a manager carries greater authority, and would be more readily accepted.

It is doubtful whether front line staff are best suited to address issues regarding the closure as the emotion of a branch closure can have as much impact on staff as it does on customers. Whilst in this case all staff were assured of continued employment, front line staff may be less likely to “toe the party line” than line managers or specially trained staff.

> *“I was able to just cope. My whole focus was on shutting the branch down therefore for that full six week period I did nothing else.*”
>
> (Extract from Piper interview)

There is a good argument that a relief manager should be used at the branch to take over operational issues, leaving the incumbent free to deal with logistical issues pertaining to the closure and deal with customer enquiries received at branch level and from the telecentre and other areas such as regional and head office.

This will not be possible or appropriate in all circumstances, for example a manager facing redundancy is unlikely to be the best representative for the bank. However, it is important that someone of sufficient standing and expertise is able to take on the leadership issues involved at this time. An alternative may be to have a suitably trained manager to deal with all branch closures co-ordinating complaints, marketing opportunities for additional product sales, liaison with direct reports and branches identified to take up most of the accounts of the closing branch.

8) CONCLUSIONS

- The decision to close Beckenham branch was justified and consistent with trends apparent within the industry and correctly identified.

- Whilst there is little evidence of it impacting on retention levels, the way in which the Bank conveyed the decision and its implications for customers was deficient in some areas. Longer term retention rates may not have been so good.

- The Bank should consider ways to make "migration" proactive rather than reactive. The key to successful branch migration is the retention of existing customers and continuing to build on that customer base through additional services and products through other delivery channels.

There is a need for banks to educate customers to the changes happening in banking and the benefits it offers. More research should be down on customer awareness of changes in the banking sector and their reaction to it.

Banks should seriously consider putting in place a system to monitor retention and customer reaction at future closures. Accountable area managers should be given performance targets linked to retention and product (debit card, telephone banking etc) uptake.

In simple terms any bank dealing with branch closures must be more proactive than was the case with Beckenham branch.

There will be a school of thought that disagrees, arguing that as all banks with a retail network are rationalising one is not vulnerable given no one bank is seeking to differentiate by retaining, or even more optimistically opening new branches. Perhaps New Zealand consumers are so used to rationalisation and closures that there is simply no major resistance to closures. However, the reaction in 'Letters to the Editor' etc whenever a closure is announced suggests otherwise.

If a bank is serious about repositioning itself, not just for the short term, then the benefits from branch closure are only sustainable if the market base it serviced can be retained, built upon and serviced in such a way the bank is able to differentiate itself from other financial institutions.

It is unlikely that any bank in New Zealand will seek to differentiate itself by developing a branch network at the expense of other delivery systems. Furthermore, the current fixation with the expenses to income ratio that governs strategic thinking in the banking sector will see the trend to close branches continue, regardless of customer retention issues.

Managed correctly, branch closure can be used as a positive reinforcement of improved banking services for the benefit of the customer and the Bank that takes such an approach will be the one that makes the transition the best.

APPENDIX I

The following are extracts from the report, prepared by Andrew Kench, Assistant Regional Financial Advisor 23/2/96. Figures and ratios in *italics* have been added.

Profitability Analysis

	31/3/94 12 months	31/3/95 12 months	30/9/95 6 months
Interest Income (margin)	994	1 174	652
Other Income	271	338	203
Total Income	*1 265*	*1 512*	*855*
Human Resources (staff)	*321*	*328*	*155*
Total Expenses	1 058	953	515
NPBT	207	559	340

Balance Sheet

Lending	29388	29581	29411
The mix			
Housing Loans	*88%*	*89%*	*90%*
Commercial	*6%*	*4%*	*3%*
Rural	*2%*	*2%*	*2%*
Other	*4%*	*5%*	*5%*
Deposits	34090	36386	36447

Ratio Analysis

	3/94	3/95	9/95	Annual Bank Ave	*Difference (+/-)*
Interest Margin	2.84	3.28	3.53	3.71	*- 0.18*
Other Income	0.77	0.94	1.10	1.21	*- 0.11*
Direct Expenses	2.68	2.36	2.47	2.71	*- 0.24*
Pre Tax Profit	0.59	1.86	1.84	1.85	*- 0.01*
Profit (%) of RWA	1.23	3.16	3.93	3.23	*+0.70*

<u>Per FTE (000)</u>

Counter Transactions per month	1.3	1.2	1.3	1.1	*+0.20*
Profit ($)	20.4	56.8	81.6	86.4	*-4.80*
Deposit Funds	3 478	4 182	4 165	3 284	+8.81
Lending Balances	2 999	3 400	3 361	3 612	*-2.51*

<u>Growth (pa)</u>

Lending Growth	12.0%	0.7%	-0.6%	3.4%	*-4.0%*
Deposit Growth	2.0%	6.7%	-0.2%	2.4%	*-2.6%*

Appendix II

('000s)	**3/94**	**3/95**	**9/95**
Lending	25 861	26 327	26 470
(50% risk weighting)			
Lending	3 527	3 254	2 941
(100% risk weighting)			
Land & Buildings[15]	680	680	680
Plant, F & F[16]	32	32	32
TOTAL ASSETS	27 100	30 293	30 123
TOTAL LIABILITIES	34 090	36 386	36 447
EQUITY	(6 990)	(6 093)	(6 324)

[15] In Beckenham's case the Bank owned the premises from which it traded, which were sold for $680,000 in August 1996 - this value for has been taken for land and buildings.

[16] In the case of plant, fixtures and fittings the Bank's asset listing as at October 1995 has been reviewed, and the value of fixtures came to $31,974.

Appendix III: Branch Closure Letter

TRUST BANK

TRUST BANK CANTERBURY

Beckenham Branch
147 Colombo Street
P O Box 12 063
Christchurch 8030, New Zealand
Telephone 0-3-337 0921
Facsimile 0-3-337 0401

March 1996

Dear Customer

For some time, we have noticed changes developing in the banking practices of our customers. These changes have coincided with major retail developments in other areas and a marked increase in usage of electronic banking (Cashflow, Telebank and EFT-POS) by our customers.

Because of the significant impact this has had, it has been decided with regret that we have no option but to close this branch.

The last day of business is Friday, 3 May 1996

Our closest branch to Beckenham is at Sydenham - 443 Colombo Street.

It is planned to transfer your account(s) to Sydenham branch at the close of business on 3 May. Should you prefer your account(s) to be at another branch, please contact Beckenham branch for this to be arranged. (Your account number will not change)

I appreciate that the closing of Beckenham branch may cause some inconvenience. This is regretted. However, I am pleased to advise that the cashflow machine located at Beckenham branch will continue to be available.

The Manager of Sydenham branch is Mr Phil Brady. Phil and his staff look forward to continuing the relationship staff of Beckenham branch have enjoyed with you.

Your business is appreciated and the bank looks forward to being of service in the future. Please contact Beckenham branch if you require further information about the closure of the branch. We are committed to assisting in any way possible.

Yours faithfully

Marian Piper(Mrs)
MANAGER

Trust Bank New Zealand Limited

Appendix IV: Branch Closure Notice

TRUST BANK

THIS BRANCH IS TO BE CLOSED

Due to changing banking and shopping practices, this branch is to close.

The Cashflow machine will remain at this location.

The last day of business is Friday, 3 May, 1996.

Customers accounts will be transferred to our Sydenham Office unless requested otherwise.

Please ask our staff for full details about the closure of this branch.

We regret any inconvenience caused.

Appendix V: Alternative Closure Letter

Dear (Insert name)

You will be aware that the Bank has progressively introduced a number of products to improve our customers' ability to access banking services at any time. Many of these such as EFTPOS and Telebanking you may already be using.

I write to advise you that as a result of these moves towards more direct services to our customers and the benefits that result, the Bank will be closing its ABC branch effective from xx/xx/xx.

The Bank values the service the staff at ABC branch have provided you with in the past. All existing staff / all non-managerial staff will be located in nearby branches to continue to meet your needs.

The Bank remains committed to providing a high level of service and access to banking facilities through the use of products such as Telebanking, ATMs, our mobile and personal bankers and of course our branch network that is the largest in New Zealand.

Later this week I/one of our staff will contact you to discuss your personal banking requirements and any other issues you may have regarding the closure.

We will also be asking you which branch you would like your accounts transferred to. To help in this regard I enclose a map showing the location of our nearest branches and the services they offer.

Michael Love
Branch Manager / Relationship Manager

Appendix VI: Alternative Closure Notice

THIS BRANCH IS TO BE CLOSED

Dear Customer

As you will be aware the Bank has introduced a number of products and services to improve your access to the Bank. Many of these such as EFTPOS and ATMs you may already be using.

I advise that as a result of these moves towards more direct services to you this branch will close effective from xx/xx/xx.

All branch staff are being relocated to our nearest branches to continue to meet your needs.

A map showing the location of our other branches is available at reception. Accounts will be based at our East City branch unless requested otherwise.

If you have any questions regarding the closure and the services available to meet your ongoing banking requirement please do not hesitate to call on me.

Michael Love
Branch Manager

Appendix VII: Telecentre / Relationship Manager Information Sheet

Precall

Customer name
Account number
Phone number
Age

Yes No

Type of accounts:

Mortgage
Investment
Cheque
Savings
Financial Services Products
Insurances
Other

Electronic Services:

Cashflow Card
Telebank
Relationship Managed?

Choice of branch ?

North City
East City
West City
South City

Other.....

Any other issues.

....
....
....
....

cc (in need) Branch Manager Area Manager Financial Services Other

To call again / /

CALL SHEET

1) Ring and identify customer.

2) Introduce yourself. Check to see if it is a convenient time to talk. If not ascertain a time to call again and diary accordingly.

3) Check that they received letter regarding closure. If they have not both apologise and advise of branch closure and continue.

4) "My reason for telephoning you was to see if you had any questions/ concerns regarding the closure."

5) If no proceed to ask which branch they would like their accounts based at.

6) If yes address each issue, use answers off information sheet. Highlight products they already have or are available.

7) If unable to resolve ask if the branch manager / you (if relationship manager) could call on them to discuss outstanding issues or put in place products identified e.g. Telebanking.

6) Ask if it would be in order to call again post closure to make sure everything is ok.

7) Diary accordingly.

APPENDIX VIII: INFORMATION SHEET FOR STAFF

ABC branch is to close effective xx/xx/xx.

Existing ATM machine will remain

No redundancies have occurred with all staff being redeployed to near by branches

In the last year transaction levels have fallen xx% as customers have taken up other services such as EFTPOS, Telebanking etc.

x% of customers are already directly managed by staff not part of the branch e.g. Private Banking / Commercial Managers.

Bank has the highest number of ATM machines in country

Bank has more branches than any other bank in country

Managers are available at any time to call on customer at a place of their choosing to discuss banking requirements.

Contact numbers

1) Branch Manager	Michael Love	Ph 1234567
2) Area Manager	Alan Jardine	Ph 7654321
3) Closure co-ordinator	Brian Wilson	Ph 4325678
4) Assistant to Regional General Manager	Carl Wilson	Ph 0987654

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