

Sema Darmon  
St. Saviour's and St. Olave's School

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The rapid advancement of IT since the 1980s has revolutionised the way in which the wider society interacts with their bank and money. Reliance on branches on the high street varies with consumers' age, wealth and occupation but as substitutes like online banking have become increasingly popular, demand for brick and mortar branches have dropped. Subsequently, bank branches have been shutting down at an 'alarming rate'<sup>1</sup> as reports reveal more than a third of UK branches have closed since 2015 and many others have restricted their opening hours.

Digital banking provides improved availability and usage as costumers are aware of their finances and have access to their account at all times, increasing convenience and reach of financial services and lowering the opportunity cost of time. Approximately 73% of the British population already use online banking<sup>2</sup>. Fintech companies often argue traditional megabanks do not make efficient use of software<sup>3</sup> so challenger banks, like Monzo, aim to offer financial services with advanced efficiency. Monzo<sup>4</sup> is a fintech company founded recently in 2015 which already has over three million users. It has no physical branches but offer current accounts, saving pots with paid interest and support through a chatting feature in the mobile application, quite similar to the services offered by traditional banks. It additionally provides 24/7 accessibility and notifies users with changes in their account real time, ensuring costumers with clarity and mindfulness over their finances<sup>5</sup>. Digital-only banks have proven to be successful suggesting that perhaps physical branches on the high street are not essential to today's market.

Conversely, Vince Harris, senior account supervisor at re:group, argues digital-only banks are an imperfect substitute<sup>6</sup> to brick and mortar branches; they simply cannot offer the same services as traditional banking methods. Banks require a channel which enables them to interact with their costumers on a human level. This deeper level of interaction is essential for people to build a relationship with banks, enabling costumers to understand who they are entrusting their money with and establishing brand loyalty. Furthermore, traditional banks offer additional services, which challenger banks are unable to – for instance financial advice, business loans and mortgages. This convenient array of choices makes traditional banking superior to that of digital-only challenger banks.

However, as IT improves, and particularly as the AI sector advances, online banking will be able to offer much more options of recourse<sup>7</sup>, making the issue of digital-only banking being an imperfect substitute a short-term problem and therefore relatively insignificant to the question.

Alternatively, a significant long-term matter of the absence of physical branches on the high street is the accessibility of online banking for older generations and those who live in rural

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<sup>1</sup> <https://www.theguardian.com/money/2019/sep/24/more-than-a-third-of-uk-bank-branches-have-closed-since-2015>

<sup>2</sup> <https://www.statista.com/statistics/286273/internet-banking-penetration-in-great-britain/>

<sup>3</sup> <https://industrywired.com/top-4-fintech-innovation-trends-making-financial-services-more-efficient/>

<sup>4</sup> <https://monzo.com/about/>

<sup>5</sup> <https://graziadaily.co.uk/life/real-life/meet-mondo-online-bank-might-just-change-life/>

<sup>6</sup> <https://thefinancialbrand.com/63679/bank-credit-union-branch-network-strategy/>

<sup>7</sup> <https://www.finextra.com/blogposting/17689/ai-and-the-future-of-banking>

areas with unreliable access to broadband<sup>8</sup>. Older generations who have not had sufficient exposure to technology are less confident with using the Internet and digital means of banking, and are therefore less likely to prefer online banking over visiting branches. The UK has an aging population and increasing life expectancy, meaning the cooperation of older generations is vital in dictating the evolution of banking and transitioning it into the digital age. The age-based digital divide<sup>9</sup> can be bridged by government-funded digital training programs, improving digital literacy skills – which have a number of benefits aside from revolutionising banking, including accessing online resources enabling them to further their knowledge and for instance enabling them to proactively manage their health, cutting down on NHS costs in the process. However, there is a resistance to bridging the digital divide by older people due to concerns about its impact on society and fears on making mistakes, resulting in difficulty in transitioning into online banking, therefore meaning physical branches will remain a necessity. Similarly, Britons from rural areas are less likely to adopt online banking due to inaccessibility. Around 10% of the UK have inadequate access to broadband<sup>10</sup> despite government implemented policies attempting to equalise the rural-urban divide. Such stakeholders' issues with digital means of banking signifies the importance of brick and mortar branches which are essential to a community.

Furthermore, security is a significant issue regarding online banking. Cybercrime has risen subsequent to the rise in IT use as it has become a new avenue for criminals, creating new means of identity theft, fraud and other crimes alike, with increased difficulty in prevention and detection. Financial services firms fall victim to cyberattacks 300 times more frequently than businesses in any other industry<sup>11</sup> and with this form of vulnerability, it is understandable that people prefer visiting branches and communicating with their bank without an in-between medium, instituting a sense of security for costumers.

Nonetheless, managers of megabanks which utilise physical branches on the high street believe that shutting down branches, which have minimal usage now with lowered demand, will reduce fixed costs. Rent is extremely high in cities and populous town centres alike compared to out of town call centres, so closing such branches and centralising the firm ultimately decreases the costs and allows for corporations to invest this money elsewhere. Currently, digital-only banks have a competitive advantage over traditional banks as they are able to offer higher interest rates on savings and lower fees<sup>12</sup> due to saving on costs of renting physical branches.

However, a survey by Forrester Research<sup>13</sup> found that one of the most important factors influencing people's selection of a new banking provider is a convenient and local branch

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<sup>8</sup> <https://www.maparesearch.com/still-need-bank-branches/>

<sup>9</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4296914/>

<sup>10</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/articles/exploringtheuksdigitaldivide/2019-03-04>

<sup>11</sup> <https://www.forbes.com/sites/bhaktimirchandani/2018/08/28/laughing-all-the-way-to-the-bank-cybercriminals-targeting-us-financial-institutions/#3c7c0b56e906>

<sup>12</sup> <https://www.cnbc.com/2019/01/23/you-can-make-17-times-as-much-interest-on-savings-with-an-online-bank.html>

<sup>13</sup> <https://www.crnstone.com/insightvault/2018/08/23/how-consumers-choose-a-bank-a-tale-of-two-surveys/>

location. Similarly, Paul Pester, former CEO of TSB Bank, believes “having a branch in a convenient location is as important as ever for consumers<sup>14</sup>” and therefore vital in attaining new and continuing to serve current costumers. Despite costing a lot more, branches on the high street offer increased opportunity to increase revenue.

To conclude, although it has undoubtedly lost some importance following the rapid rise in the use of IT for banking which offers incomparable convenience, brick and mortar branches will continue to be a necessity on the high street. It is currently not entirely redundant and communities continue to rely on them for services which cannot be achieved via mobile banking. Physical branches are especially significant relating to short term usage, however arguably as the capabilities of technology advances, consumer behaviour and the market for banking will shift and branches will increasingly not have as much a relevance to society.

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<sup>14</sup> <https://thefinancialbrand.com/63679/bank-credit-union-branch-network-strategy/>