MANAGING THE BANKS NETWORK OF BRANCHES – TODAY AND TOMORROW

“In times of crisis, only imagination is more important than knowledge”
Albert Einstein

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Abstract:
The network of branches represents the backbone for commercial banks and their main distribution channel for financial products and services. The rapid growth in number of bank branches registered between 2004 and 2008 was a consequence of the low banking coverage in Romania compared to the European Union average and market opportunities for the foreign banks. As the global financial crises effects stroke the Romanian banking sector at the end of 2008, the management of the branches network also became an issue, but the adjustments and changes implemented were scarce. Since the future economic forecasts do not look very promising, the banks started to implement different methods and methodologies in order to make the step from development to optimization of their network of branches.

Keywords:
management, bank branches network, development, optimization, risk management, human resources management, alternative channels;

The expansion plans carried out by the banks active in Romania increased the number of banking agencies and branches at a number of 6.323 units in September 2008. Since then, the banks consolidated their networks of branches, and after three years of financial crisis, at the beginning of 2012, the number of branches and agencies slightly decreased at around 6.000 units.

Branches versus agencies: Banks have the possibility to transform their distribution channels in order to achieve maximum efficiency. In these respect, the models of branches and agencies are not the same. The main differences appear in terms of human resources management. An agency will not exceed 3 or 4 employees and might offer limited services to customers in contrast with a branch where at least 5 employees and most of the bank products and services available. The banks are in a constant search of the ideal service model considering the maximization of customer satisfaction and cost efficiency. In the figure below the service alignment of the branch is presented as a mix between Customer Profitability, Customer Behavior and Customer Preference.
Customer Preference shows what products and services clients will buy and the banks will adapt the offers in order to provide them.

Customer Behavior shows how customers prefer to access products or services and the banks will adapt the infrastructure in order to provide them.

Customer Profitability shows that some types of customers are more valuable than others in terms of revenues they produce, so the banks have to find solutions to maintain and increase their number. In this respect, agencies tend to service customers that bring low revenues and their main demands are linked to basic banking operations while branches are focused in servicing and acquiring medium-high revenue generating customers.

Some banks in the Romanian market implemented branches dedicated to certain types of customers, and their model seems to be promising so in the near future we might see a more obvious branches separation in terms of service model. For example clients with incomes or assets higher than a certain amount will have their own branch to be better serviced and increase their retention rate (it is up to 5 times more expensive to attract a new customer than to attract a new one).

Banks might try to reshape the entire network of branches, changing the structures and role of each unit in accordance with its best results, rewarding the performance and setting new standards within each organization. Something new must happen in order to reset the classical approach.

Branches and agencies versus alternative channels: As the information technology advances, the possibilities to offer certain banking services outside the branches are exploited by the banks in order to decrease the operational costs by migrating the customers towards the new distribution channels.

Transaction migration from the physical branches towards the virtual ones is still a long term desire for banks as they need to cope with generation gaps and novelty resistance. The classic branch will continue its evolution in the near future as the main distribution channel but will bring together more specialized employees and new technologies that will optimize the cost / benefit ratio.

Managing a network of bank branches, no matter the size of it, will follow certain specific indicators calculated for each unit: profit, cost / income, number of clients, types of clients, number of operations, credit / deposit ratio, number of clients / Relationship Manager,
number of operations / Operations Officer. In accordance with these indicators decisions are made regarding the evolution of each branch in particular and the entire network.

From the **Risk Management** point of view, the branches network is a source of control for the **liquidity risk** as the cash deposits are attracted through the branches and agencies. In the current economical situation, a well developed network of branches might be a stability factor.

**Today** we still confront with an uncertain economic climate and majority of the branches have shown in their balance sheets the effects produced by the provisions, reimbursements, lack of customers and high operational costs, as the branches financial results became negative. The solution for the future is to continue the process of optimization by closing, relocating and opening new branches and agencies in accordance with the dynamic business opportunities. Nevertheless, an important role should be given to the innovation process the only action capable in changing the game.

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