

Using AI to find the ideal branch location

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Published June 07 2019, 3:28pm EDT

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Dedham Savings was “virtually unknown” to residents of the South Boston neighborhood, commonly referred to as Southie by locals, when it opened a branch there in the fall of 2016, according to the bank’s chief financial officer.

The branch has accumulated some \$35 million in deposits, “which we believe is a pretty good amount of growth for a branch that opened less than three years ago,” said Mark Ingalls, who is also Dedham’s chief operating officer.

With \$1.5 billion in assets, Dedham’s decision to add a branch in South Boston was aided by a statistical analysis of the area’s economy, population and real estate market from a company run by Michael Purchia.

Now Purchia is combining his expertise in real estate market evaluation with his banking background to launch a fintech named Paramount Financial Technologies. The new company is in a similar business, but it is powered by artificial intelligence and analytics.

“Our strength is bringing market intelligence on geographic markets to answer very specific areas that are important to banks,” said Purchia, Paramount’s president.

Branch boom in Massachusetts

Charter type	12/31/16	12/31/17	12/31/18
Co-op banks	166	168	183
Savings banks	497	529	549
Trust companies	371	399	410
Credit unions	149	162	170

Source: Massachusetts Division of Banks

Purchia co-founded and led a company named Commonwealth Financial Technology, which was sold in 2001 to the commercial real estate firm Brand Partners. "Paramount is really based on the partnerships and relationships we developed back with Commonwealth," he said.

Banks using Paramount's data seek to answer three key questions when analyzing current and future branch needs: Where can a bank strategically open new branches to build up core deposits? How can a bank improve the efficiency of its current branch network in the face of digital banking? And where do banks need to spend more effort cultivating business relationships in the communities they serve in order to increase commercial loans?

Since the number of branches is falling nationwide, it might seem surprising for a fintech to seek to specialize in assisting banks with branch expansions. However, Massachusetts lenders are experiencing a mini-boom of branches.

State-chartered credit unions and banks had a combined 1,312 branches at Dec. 31, according to the Massachusetts Division of Banks. That was up 21% from 2014. In fact, the number of branches during that five-year period increased between 3% and 6% each year during that five-year period.

Clearly, there are opportunities for smaller institutions to grow. But there is a catch: the costs involved.

Various industry estimates peg a single branch opening at anywhere between \$800,000 to \$3 million depending on the cost per square foot, whether a bank is also purchasing the land and market-specific factors.

At such costs, many banks are less willing to gamble on new locations than they once were.

Before the financial crisis, banks would "sprinkle a couple of branches here and there, and some would grow in deposits, and maybe you end up closing a branch or two," Ingalls said.

"Today, it's not that easy," he added. "The number of branches is actually starting to fall a bit. Not in every market, but you have to be a little bit more strategic. It's a lot more expensive to make those mistakes."

That is one of the reasons Paramount has relationships with real estate companies, Purchia said: so it can assess the costs associated with either buying or leasing a space for a potential new branch.

"Banks make a lot of real estate loans, but they're not as strong as you would think in terms of their own corporate real estate," he said.

"So, we're creating the analytics on commercial real estate and then working with the bank and specific real estate firms" to identify needs, he added.

Paramount's influence extends beyond the Boston area.

The \$898.6 million-asset Newburyport Bank used Purchia's previous company in 2012 to assess expansion beyond Massachusetts and into Portsmouth, N.H., a New England city that has a vibrant downtown area and is home to Southern New Hampshire University.

"We knew we liked the general greater Portsmouth area," said Tim Felter, Newburyport's CFO. Paramount "had some great insights into which areas of the city would be best to open a new branch. Some areas made more sense than others."

Newburyport moved forward and opened two Portsmouth branches in 2012, followed by two more locations in 2018.

"We're opening another one in two weeks," Felter said.

He credits Paramount's market intelligence with the expansion, and as a way for a community bank to use a fintech to cut costs associated with scouting locations.

"We're a small community bank that's not in the business of doing these types of things on a regular basis," Felter said. "You need consultants such as Paramount to help you identify the current resources available."

Both Dedham Savings and Newburyport Bank also are initial investors in Paramount.

It's Dedham's first fintech partnership.

"We were willing to throw some money into Paramount, and work with community banks that are dealing with the same issues we're dealing with," Ingalls said. "It's a low-risk, potentially high-reward investment for us."

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