Be There Be More

WHITE PAPER

Transforming the Branch: Understanding the Self-Service Consumer Landscape

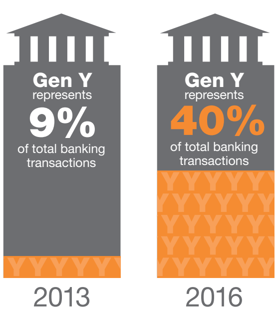
Executive Overview

It's estimated that consumers spend at least two days per year waiting in line for services in retail environments. This cross-market frustration has spurred progressive organizations to modernize and offer ease-of-use self-service options.

IHL Group's 2012 market report, "North American Self-Service Kiosks," found that airlines implementing self-service kiosks such as Southwest and Delta report domestic check-in times as little as 30 seconds with an estimated 70 percent of all passengers using this option. A self-service model has also been adopted by leading retailers such as Walmart and Home Depot as well as grocery store chains. For example, the same report found that self-service stations at Kroger and Albertson's equate to 15 to 40 percent of the daily transaction volume. This represents a clear indication that retail consumers are growing more comfortable with the service offering.

While self-service is not always faster, consumers are drawn to it due to habit, choice or conditioned behavior. Not surprisingly, Gen Y is responsible, in part, for these changes as they demand speed and efficiency. In 2017, Gen Y will outspend Baby Boomers for the first time, which means that businesses have to understand and anticipate how this demographic perceives and interacts with varied service models.

Despite comprising just nine percent of total transactions today, in three years Gen Y will represent 40 percent of total banking transactions and have the most spending power of any demographic. This group, born between 1983 and 1999, is 15 percent more likely to deposit checks at an ATM and 29 percent more likely to try new technology-enabled payment tools.



With this market shift, progressive credit unions are transforming branch operations opting for interactive automated kiosks. The branch isn't entering an end cycle; rather it is evolving with more of a concentration on sales than service. This will require employees that remain on site to be well versed in all sales channels as "teller knowledge" may no longer suffice.

This white paper will investigate and explore the benefits and realities of branch transformation, which every credit union executive should be made aware of. A detailed analysis coupled with the examination of industry research, case studies and exclusive interviews with credit union c-level executives will provide branch transformation insights, methodologies and actionable intelligence.

Self-Service Market Indictors

In one respect, semi-automated credit union branches could be viewed as counterintuitive to the industry brand: exemplary member service. Traditionally, members selected credit unions over big banks for the personal care and competitive services offered—traits that continue to define the industry's competitive brand. Today, however, credit union executives are looking at branch employees as sales associates rather than their historical function as only service personnel.

"How members interact with their credit unions has changed drastically during the last five years, and even more dramatically in the last one or two years in the context of mobile technology adoption," said Raja Bose, Senior Director of Consumer Transaction Solutions for Diebold Incorporated. "Increasingly, we're seeing members turn to online and mobile channels for most of their transactions."

Bose explained that "branch transformation" is not a new concept with progressive credit unions undertaking this conversion as many as 10 years ago. "The size of the branch, the number of branches in a credit union's network and the role of the branch are not always aligned with typical consumer behavior. If the branch is central to complex, relationship-based transactions, it needs to be reconsidered from a construction, staffing and operations perspective."

Since the branch is no longer the primary channel for day-to-day interactions, members see it as an alternate channel best suited for complex transactions such as large deposits/payments, loans and opening new accounts. As a result, transactions across all segments are slowly decreasing. The Durbin Amendment, Regulation E and Dodd–Frank act have also impacted the non-interest income of credit unions. Last year, Financial Management Solutions, Inc. (FMSI) released the report "Teller Line Study of Community Banks and Credit Unions," which found that approximately 88 percent of senior level managers were concerned with federal regulatory pressures that decrease revenue.

To sustain the vitality of the branch model, credit unions must decrease overall expenses and determine ways to increase revenue. In a concerted effort to gain new book of business while maintaining existing member relationships, forward-looking credit unions are figuring ways to intertwine self-service technologies with human interaction and oversight.

"Video based solutions based on Skype-like technology enable credit unions to provide a person-to-person experience using a combination of good old customer service with the high touch of remote video capabilities," said Dr. Kathy Herziger-Snider, Vice President of Development, CO-OP Financial Services. "Branch transformation may have a self-service view of the world with highly personal interactions reserved for more complex types of transactions, or for those members resistant to change."

In July 2012, Celent conducted a survey with financial institutions that found that approximately 25 percent of branch transactions will migrate to self-directed technologies over the next five years. The report found a common objective among those polled with 66 percent contemplating a redesign concept that supports a sales/service rather than transactional model. The convergence of technologies has created new breeds of ATMs thus informing branch channel strategies. For instance, the 24/7 CO-OP NextGen ATM has realized industry success as it allows members to use walk-ups, drive-ups or thru-the-walls advanced functioning ATMs.

This device has the capability to support multiple transaction options such as standard ATM transactions, shared branching transactions and deposit automation. Eventually video support will be added for assisting with more complex transactions.

"Financial institutions are leveraging their ATM channels more effectively and are promoting self-service usage of the ATMs by migrating routine transactions into self-service or teller automation," said Terry Pierce, Senior Product Manager, CO-OP Financial Services. "With the addition of two-way video services where members have the ability to chat with a live person while completing a transaction, this expands the credit union reach for remote and in-branch locations."

Moving Toward Automation

When it comes to branch transformation, there isn't a one size fits all model as that strategy excludes members who prefer alternative channels. Gen Y members might gravitate to mobile or technology accessed channels, while Baby Boomers may require a traditional physical branch presence. "The opposite is also realized with adoption rates in certain demographics defying conventional wisdom," said Mark Chatfield, Chief Operating Officer, CO-OP Member Center. "Industry reports find that today's youth chose their financial institutions based on the proximity to large office/branch presence."

As a result of technological advances, such as online banking and mobile banking, Gen X and Baby Boomers are also drawn to expatiated self-service channels. "Technology adoption is occurring in other generations as well and will continue to do so across industries," said Bose. "For instance, if grandparents can video chat with their grandkids on an iPad, they're not going to be as hesitant to use a video teller machine at the branch—it's just a matter of time for this technology to become more commonplace."

The majority of branch transformations include self-service, teller automation, alternative communication channels and integrated channel support. Research and market demographics in a credit unions region are critical to success. To this end, branches are now offering a mélange of services specific to their members.

"Traditional physical branches have morphed into multiple channel delivery centers. Adding a full service ATM, deposit taking ATM or now video supported ATM create extended service options for members once previously unavailable," said Chatfield. "Credit unions compete across vast new access channels where service and information is readily available based on the member's desire, not the credit union's outdated strategic plan."

In April 2010, a Video Teller uGenius BYU study found that 82 percent of general retail banking consumers are willing to use an interactive teller system for certain transactions. Video Teller Machine (VTM) users reported a 90 percent satisfaction rate. For those branches implementing VTMs, a 40 percent reduction of labor costs was realized with available teller service increasing by 44 percent.

Credit Union Perspective

With $3.4 billion in assets, 400,000 members, 1,100 employees and 75 branches, Mountain America Credit Union has taken steps to transform its branch operations. "We recently piloted a video agent assisted ATM. While there is always a lot of work to be done, we view this as a great opportunity," said Tony Rasmussen, Senior Vice President, Payments/Business Services and Payment/Card Services.

"As far as the discovery process is concerned, we often look to existing partners like we did to Diebold and CO-OP for the ATM Video Concierge pilot to help us navigate the seas of change," said Rasmussen. "We can't allow the change of pace outside our organization to be too much greater than the pace of change inside or our venture will fail."

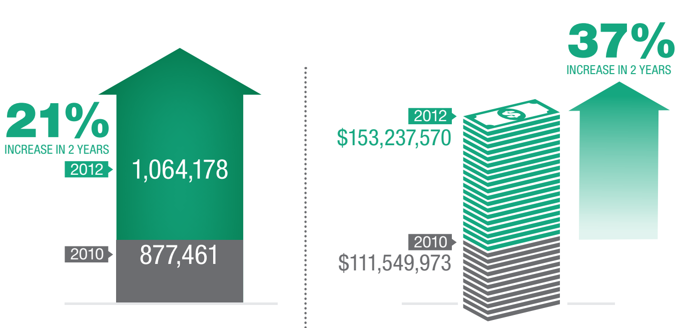
The industry is in fact changing, which was reflected last August when the National Credit Union Administration (NCUA) deemed interactive ATMs regulated service facilities. "Credit unions need to embrace new technologies that allow them to improve and expand service," said NCUA Board Chairman Debbie Matz. "Likewise, it is important for us, as the industry's regulator, to stay in sync with changes in the marketplace, including changes in technology. The use of video tellers as service facilities is sensible for both credit unions and consumers."

Transformed branches is the call-and-response to the changing marketplace, which is driven, in part, by technology and the shared branching movement. With more than 5,000 live teller locations in all 50 states and in four foreign countries, shared branching has enabled many members to change respective views on the capability of their credit union. Additionally, the ability to conduct transactions during off hours via 2,000 Vcom kiosks is a perfect model to serve all members.

"The best technology is the technology that is pushed as far down the food chain as possible, directly to the member/consumer," said Sarah Canepa Bang, Chief Strategy Officer, CO-OP Shared Branching. "You have to offer 24/7 transaction access and remove three friction points: limited hours, humans and lack of convenient locations."

In the last five years, the use of Vcom remote kiosks for transactions has furthered the self-service branch model, a platform that allows virtual tellers to field member questions and reset pin codes, among various other tasks.

According to recent CO-OP Shared Branching statistics, total transactions through the VCom kiosks plus the other credit union-owned self-service kiosks in the CO-OP Shared Branching network totaled 877,461 in 2010. Last year that number spiked to 1,064,178, a 21 percent increase in just two years. During the same time periods, total dollars transacted through these self-service devices experienced significant increases from $111,549,973 in 2010 to $153,237,570 in 2012, or an increase of 37 percent. These jumps in both transactions and dollars transacted solidify the increase in member acceptance and usage of self-service devices in banking.



TOTAL TRANSACTIONS through CO-OP Shared Branching networks including Vcom.

TOTAL DOLLARS transacted through self-service kiosks.

"By having the Vcoms in the marketplace, we believe more members have a chance to become comfortable with the concept of self service," said Canepa Bang who referenced the successful 7-Eleven/Vcom partnership. "This can only help the adoption rate by members as more and more credit unions implement advanced self-service ATMs."

Often, credit union executives consider the adoption of advanced technologies cost prohibitive. However, when transforming a branch, it is common to enhance existing hardware and software. "The reality is that most branch transformations can be done with technology that exists today. They can be done using traditional ATMs and with only minor modifications to the branch," said Diebold's Bose.

"Credit unions can leverage the investments they've already made in facilities and technology to create a more effective branch presence," he continued. "Components like video technology at the ATM, or dedicated video rooms, intelligent use of digital signage and in-branch kiosks for simple transactions are all within reach of credit unions to employ today."

Branch Transformation and Employees

For many credit unions undertaking a branch transformation, the physical environment may change with respect to placement of free flowing teller pods, automated sections of the branch where self-service is available and 24/7 self-service access options (i.e., ATMs outside of the branch). When undertaking a branch transformation, it is important that members are not overwhelmed by the process.

"Branch transformation can't go to the extreme," said Sabeh Samaha of Samaha Associates, a Chino Hills, Calif.-based credit union consulting firm. "Today there is a move toward product rather than transaction and sales more than branch operations, but pulling too much of the human element out of the branch is a bad thing."

The increase of automated tellers does not necessarily have a negative impact on branch employees; however, it does redefine respective roles. "We have yet to do much in the way of physically transforming or modifying any locations from traditional branch setups," said Mountain America's Rasmussen. "To this point, our transformations have been more on the staffing front with fewer tellers, more new account and lending staff, and more emphasis on interaction and sales skills and finding alternative ways to contact, connect and serve the members versus relying on them to find us."

As noted in the introduction, Southwest Airlines is a successful self-service model because while self-service kiosks has increased operations efficiency, the company also provides employees on site to help with any self-service related questions. Progressive credit unions are taking the same dual approach.

"There is a parallel between the legacy airlines and the new carriers and big banks and credit unions," said Samaha. "With that said, credit unions undertaking a branch transformation must understand that a different personality and skillset is required of employees. In some cases, it is more efficient to find the right talent and aptitude for these service oriented greeters who need to be knowledgeable about loans and other products. This could also require retraining or hiring more accurately."

Pierce agreed with Samaha and added: “The branch transformation shift requires emphasizing traditional platform-based member services and selling skills over technical proficiencies such as balancing and being fast,” she continued. “Branches will continue to be crucial for acquisition and sales. Tellers will be more of a financial consultant and focusing on cross selling products and services.”

Depending on the needs of the credit union, a call center may or may not play a traditional role in branch transformation. While some credit unions provide their own call center for call overflows, many transforming branches do not have the designated resources for 24/7 coverage.

The key to call center services is the ability to incorporate the service model of each credit union that provides a seamless member experience, while supporting the unique positioning of each credit union in a cost effective manner.

“Call centers offer a cost effective way to support revenue generating services like loan origination to the credit unions without the full expense of building out the call center infrastructure and the overhead involved with staffing,” said Herziger-Snider. “CO-OP Member Center can provide not only loan services, but also provide direct member services like hot carding or other services that may require an immediate response to the member.”

CO-OP’s Chatfield explained the company is currently investing in new technologies that will allow members to select how they wish to interact, including text, email, video, phone and in-branch. “In the coming months, video supported information or video teller system options available to credit unions for deployment could include third party support options through CO-OP Member Center as primary or secondary support,” said Chatfield.

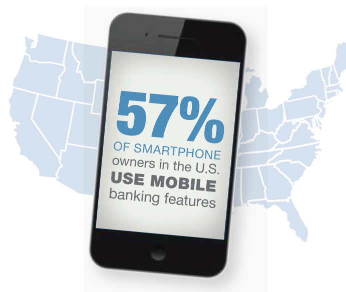
Credit Union Perspective

With 16,500 members, 38 employees, two branches and $220 million in assets, Red Rocks Credit Union has been in the process of revamping its branch presence and service offering since 2008. “This has been an ongoing process and we are continually evaluating ways to improve all the time,” said Jason Nelson, Vice President of Development for Red Rocks Credit Union. “Last July, we began beta testing CO-OP NextGen ATM. It was an opportunity we couldn’t pass up for our members.”

Red Rocks Credit Union’s flagship branch features three first generation shared branching kiosks, supplemented by a teller pod. Account and loan fulfillment requests are handled in spaces that resemble a home office. This self-service model reinforces Red Rocks’ commitment to delivering products and services to members wherever they are, and complements the experiences they have with the website, ATM network and shared branches.

Since branch transformation has reconfigured operations, and the way in which Red Rocks Credit Union employees interacted with members, changes were made throughout the organization to emphasize the benefits of self-service and “anytime, anywhere” transactions. This included developing new loan products that could be completely fulfilled through web and phone. New account opening and account servicing were also transitioned to self-service and remote-fulfillment models. “Members responded very positively to these changes because of how easy we made it for them. The fact that they do not need to come into a branch at all to handle account and loan requests has been instrumental in helping us sell the self-service transaction model.” said Nelson.

Integration of Mobile Services



By 2017, more than one billion mobile subscribers (i.e., 15 percent of global mobile subscribers) will use mobile banking. In the U.S., 57 percent of smartphone owners use mobile banking features. These statistics will continue to increase, which will force credit unions to adopt forward-looking strategies.

“We will see less human interaction for routine transactions as more credit unions will be moving to self-service as it’s the way the rest of the world is going,” said Canepa Bang. “We will also see a decline in branch traffic as more members/consumers become more mobile savvy for deposits. Remote deposit capture has been around for a while using a personal computer, members/consumers seem to be embracing mobile for this kind of activity.”

When credit union employees are able to personally interact with members, be it physically at the branch location or via a portal, the member-customer relationship is strengthened. This can be achieved, in part, through the combination of mobile banking within the branch environment.

“If we have employees approach people in line waiting for a teller with a tablet, and offer to help them deposit their checks via mobile deposit, we build trust and show members we’re here to make their lives easier and more convenient,” said Mountain America’s Rasmussen. “In turn, we hope they’ll come to think of us even more as trusted advisors.”

The growing popularity of mobile-based transactions has resulted in progressive member branch transactions. For example, Diebold has integrated the ATM with mobile devices through cloud applications, which allows consumers to complete secure, cardless transactions. Smartphone and tablet conditioned users enjoy touch gestures on these devices such as flick and drag motions. Cloud mobile transactions also support a paperless environment with members receiving transaction receipts via text message or e-mail, which is based on user preferences.

“To complete a cardless withdrawal, card holders scan the ATM’s quick response code using their smartphones. When the devices sync through the cloud, a transaction screen appears on the smartphone and the card holder selects the withdrawal amount,” said Bose. “The cloud server then sends to the smartphone a one-time code, which the consumer enters on the ATM screen to authenticate the transaction and receive cash."

In an effort to capitalize on this ease-of-use mobile trend, more companies are streamlining technologies to enhance the consumer experience, including CO-OP's new solution CO-OP Sprig, explained Herziger-Snider. Through CO-OP Connect, CO-OP Sprig has the ability move funds (P2P) within the CO-OP Shared Branching network family and will soon offer the ability to pay anyone. The application leverages the existing connections to the credit union providing online real-time access to accounts and transaction processing.

"This is a mobile and web based service that allows credit union members to register their accounts in a digital wallet, and then transact on them as if they were at a branch location. Having a mobile alternative that provides this expanded transaction set is another aspect of branch transformation," she continued. "This puts the power and service of a branch in the hands of members through their mobile device."

When configuring a new branch model, customer service and conflict resolution must be considered as part of the member experience. "Similar to how the Genius Bar at an Apple Store can be accessed remotely, credit unions could allow members to launch a complaint from their mobile app, then visit the branch to get the issue resolved," said Bose. "Likewise, members could start a loan document online, and then go to the branch to print and finish the document. From a service perspective, creating a seamless credit union experience can be invaluable."

The CO-OP Financial Services Value Proposition

By 2025, Gen Y will comprise 75 percent of the work force. The service offerings of financial institutions today will likely inform and brand their decision making process in forthcoming years. As such, credit unions will have to reconsider service models, phone based and internet based account services, lending services and plastic card support, and member center support for multiple channel access as part of their branch transformation.

Credit unions undertaking a branch transformation are not only benefiting respective members, but the industry as a whole; however, like all new initiatives it will require diligence. "Regardless of channel, members need to feel you're adding value and convenience, in addition to the staples of security, privacy and safety," noted Rasmussen. "Transforming the organizational culture to meet the needs of members in the future may be more difficult than implementing the new technology."

By integrating traditional services points like ATM networks, shared branching and call centers with progressive technologies such as CO-OP NextGen ATM, Video Concierge and Vcom, credit unions can realize far-reaching benefits. These include:

- Maximize branch efficiencies: member service representatives (MSRs) can focus on attracting new members and provide more sales and financial advice to existing and new members. Thus, branches will be a sales hub instead of a transaction hub.
- Improve member service: with more routine teller transactions handled through self-service and remote service options, MSRs can effectively assist members with their complex transactions and spend more time on problem resolution and relationship building.
- Retain and attract members: credit unions must seek ways to be viable and relevant. With evolving technology innovation, members are increasingly adopting new technologies at a rapid pace.
- Decrease expenses and increase revenue: As more members become accustomed to advanced functioning ATMs, MSR in-branch activity will focus on increasing revenue streams (e.g., opening accounts, upselling attractive car loans and mortgage rates, etc.).

Market indicators conclude that branches will increasingly be viewed by members as destinations to conduct advanced transactions such as loans and opening new accounts. This will require a branch transformation process based on new technologies, the restructuring of employee responsibilities and enhanced environmental designs.

"For the foreseeable future all financial institutions will need branches even if it is only for the H&R block effect–branches that are only used when people need them during tax season," said Canepa Bang. "So despite the decline in foot traffic in physical branches, credit unions have to maintain a physical presence. Shared branching and branch transformation will make this economically feasible."

Moving forward, members will look for the convenience of 24/7 interactive, advanced function ATMs and kiosks in disparate locations that can handle day-to-day transactions, while feeling confident to return to branch locations as appropriate.

"When thinking about future generations of the ATM, remember that branch transformation shouldn't be about simply rolling out a new technology. Branch transformation should be a much more holistic approach to rethinking the branch staffing model, workflow and layout," said Bose. "Only after planning these elements should credit unions consider the technology that can enable them to happen. A successful branch transformation is greater than the sum of its parts."

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