BEYOND THE BRANCH SERIES

Increased branch automation requires new concepts and strategies for branch services. This means looking at the entire institution, including the diverse aspects of branch transformation examined in our full "Beyond the Branch Series"—available at ***www.co-opfs.org/branchtransformation.***

Branching ROI in a Convenience Culture

Millions of consumers have made the switch from banks to credit unions since Bank Transfer Day in 2011. This is good news but places pressure on the credit union industry to meet the needs of both existing members and those migrating from banks.

Shared branching is an avenue to provide both the convenience that is demanded to achieve primary financial institution status and a means to create new income opportunities.

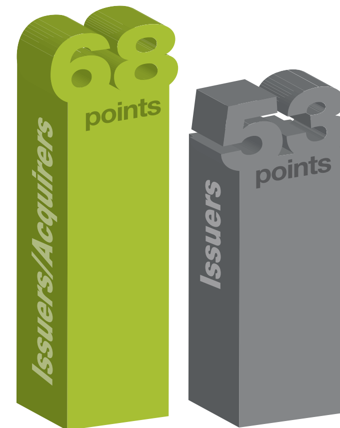
Data from a 2012 Callahan & Associates study commissioned by CO-OP Financial Services demonstrates that shared branching enhances a credit union's value proposition. There are clear benefits to being a shared branching issuer, meaning credit unions allow their members to visit other locations in the network. However, the study also shows that participating as an acquirer, in which case they handle transactions for guest members in some or all of their facilities, brings additional opportunities for enhancing financial performance.

There are many things credit unions need to consider to determine when or how to adopt shared branching. However, balance sheet growth rates usually prove decisive.

"Credit unions that do shared branching, particularly those that participate as acquirers, may see higher than average growth in their balance sheet due to their members utilizing the credit union more often," stated the Callahan & Associates study, entitled *The Cooperative Solution to Convenience: A Report of Shared Branching*.

Critical balance sheet growth metrics include loan growth followed by share and asset growth. According to the study, combined issuer and acquirer 12-month loan growth was 275 percent higher and share growth was 34 percent higher at issuers/acquirers compared to issuers only. In addition, asset growth was 29 percent higher at issuers/acquirers compared with issuers only.

Another finding showed that shared branching issuer-only credit unions generally have higher expenses and lower returns than issuer/acquirers because acquirers have the ability to offset issuer costs and generate revenue by completing transactions for guest members. Additionally, the study found that credit unions that participate as both issuers and acquirers had a return on assets of 68 basis points, compared with 53 basis points for issuer-only credit unions.



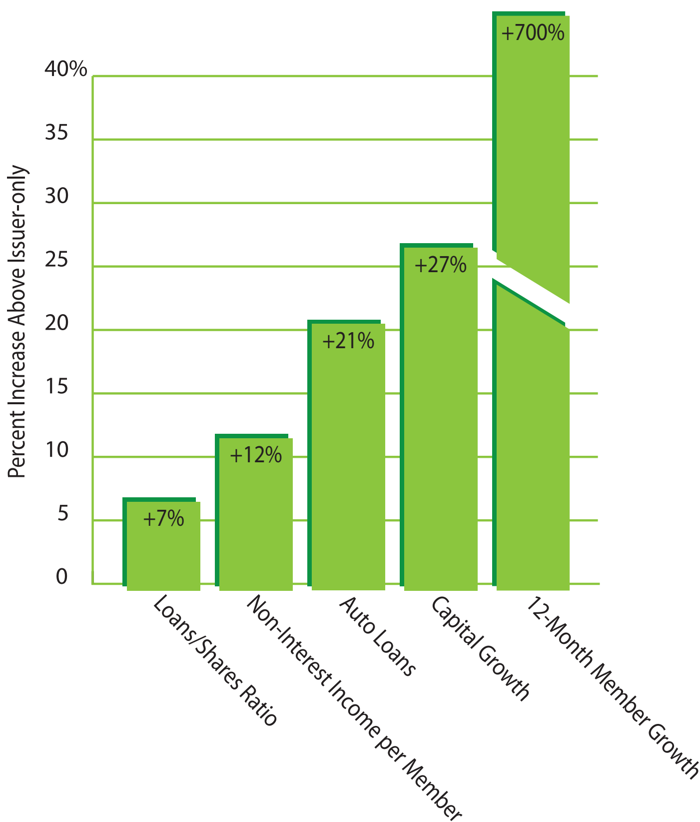
Return on Assets for Issuer/Acquirer credit unions was 15 basis points higher than for Issuer-only credit unions.

Be There Be More

The bottom line is bolstered because shared branching issuer/acquirer credit union members tend to use their credit union for additional services such as checking accounts and loans due to the increased convenience. Findings in this area included capital growth, which was 27 percent higher at issuer/acquirer credit unions compared with issuer only. Loans/shares ratio was 7 percent higher and combined new/used auto loans were 21 percent higher at issuer/acquirers versus issuers only.

Additionally, the return on investment for shared branching is quickly realized both financially and through service offerings. For example, non-interest income per member was 12 percent higher at issuer/acquirer credit unions compared with issuer-only credit unions, and 12-month member growth was 700 percent higher at issuer/acquirer versus issuer-only credit unions.

Compared to members of issuer-only credit unions, members of issuer/acquirer credit unions tend to use more services, bolstering the issuer/acquirer's bottom line.



Other growth statistics found through the Callahan study are important to note. Average loan balances for issuers/acquirers are $288 higher per member than issuers only. Share draft penetration was 7.5 percent higher at issuer/acquirers compared with issuers only, and auto loan penetration is 17 percent higher at issuer/acquirers compared with issuers only.

Shared branching participants have opportunities to expand relationships with members because the convenience the service offers prompts members to use the credit union for multiple needs. As an acquirer, credit unions have additional opportunities to generate income by performing transactions for members of other credit unions.

While members have a number of banking options, they select credit unions for the personal touch and the value offered through better rates and lower fees. But, of course, members also place a high value on convenience. A credit union can expand convenience, enhance service offerings and deepen member relationships by participating in shared branching.

CO-OP Shared Branching: widespread access with person-to-person contact.

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To learn how CO-OP Shared Branching can enhance member relationships and offer the potential for acquirer revenue, visit www.co-opfs.org or contact sales@co-opfs.org.