The Future of the Branch

A Research Colloquium in Chicago

Executive Summary by Ben Rogers
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Research Report

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Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the US credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.
We would like to thank CO-OP Financial Services for its generous support of this colloquium and other vital credit union research.
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To paraphrase Mark Twain, reports of the branch’s death have been greatly exaggerated. Or have they? While the future of the branch is being hotly debated at conferences, in journals, and across the blogosphere, one thing isn’t up for argument: that the branch of the future is likely to look quite a bit different than the branch of today. What kinds of branches should a credit union build in a world where mobile is increasingly ubiquitous, members expect the web to deliver not just content but functionality, and deep-pocketed technology players are lining up to enter the financial services space? How do a credit union’s strategy and field of membership impact its branching decisions? Which technologies will be branch must-haves in the next decade? And how should credit unions determine the effectiveness of their branch investments?

At Filene’s April 12 colloquium in Chicago, “The Future of the Branch,” experts from the worlds of academia, technology, and finance convened to address these critical topics. The conversations were lively and the opinions varied. What came through in each presentation and the discussions that followed was a sense of both the possibilities and challenges that a rapidly changing world presents.

What Is the Research About?

This report summarizes the presentations and follow-up discussions from the colloquium’s four headline presentations, as well as an industry roundtable hosted by three credit union leaders who have approached the challenges of effective branch management in three very different ways.

The colloquium format encourages input and discussion from both presenters and attendees, and the April 12 session certainly delivered both.

What Are the Credit Union Implications?

Technology is often touted as a way to cut service delivery expenses, but a careful analysis shows that the financial benefits aren’t always clear-cut. Dennis Campbell, an associate professor at Harvard Business School, shared the results of a three-year banking study that charted the links between channel choice, customer loyalty, customer retention, and overall service costs. The short story: Adding online resources may not increase the profitability of existing members, but it’s a critical must-have that can help credit unions to attract and retain new members. Perhaps most surprising: Existing members tend to use more, not fewer, credit union services with the addition
of online channels. Instead of substituting online services for, say, a branch visit, they tend to use both and to use all channels more.

The colloquium’s next presenter was Stephanie Sadowski, a senior executive in Accenture’s customer relationship management (CRM) practice. Her presentation focused on the critical role the branch continues to play in a credit union’s product/service delivery and the importance of balancing member demands for more and better technology with bottom-line realities. As credit unions move from a stand-alone model where the branch is the gateway to all services to an extended enterprise model where credit unions partner with a growing array of providers, it becomes more critical than ever for credit unions to take a holistic approach to managing their technology and delivery channels.

Stephanie’s presentation was followed by a Telepresence tour of Accenture’s Next Generation Branch showcase in Sophia Antipolis, France. Our virtual tour hosts were Emmanuel Viale, senior executive, and Jean-Baptiste Delinselle, manager, at the Accenture Technology Labs. These labs gave session participants an exciting glimpse of the solutions that will soon be part of many credit unions’ technology toolboxes.

Will branches even continue to be part of the credit union’s channel mix? Rob Rubin, founder and CEO of Facilitas and creator of FindABetterBank, and Scott Hodgins, senior director for Cornerstone Advisors, were bearish and bullish, respectively, on the future of brick and mortar. Rubin showed why the rapid adoption of mobile banking and member demand for full-function online channels mean that future investments in physical locations are a waste of credit union resources. Hodgins didn’t deny the importance of online and mobile channels but argued that neither is quite ready for its close-up and that branches will still occupy a strong position for years to come.

The day wrapped with a roundtable presentation by three innovators who have each taken a very different approach to branch management: Willard Ross from Coastal Federal Credit Union, which has replaced all of its tellers with personal transaction machines—a live video tool; Tory McVay, whose OnPoint Community Credit Union is actively building new branches; and Glenn Strebe of Air Academy Federal Credit Union, who believes the credit union future depends on fewer branches, not more.

While there’s no doubt that the branch of the future won’t look quite the same as it does today, it’s important to recognize that change will likely be both more and less substantial than we imagine. To quote Bill Gates, as Glenn Strebe did, most organizations tend to over-estimate what will happen in 2 years and underestimate what will happen in 10. Here’s hoping this forum helped us have more realistic expectations about what the future is likely to hold.
Dennis Campbell

Dennis Campbell is an associate professor in the Accounting and Management unit at Harvard Business School (HBS). He has also taught a number of courses in the Harvard MBA program and the HBS doctoral and executive education programs. Dennis’s research focuses on the design of management control systems with a special emphasis on service organizations. He has been published in leading academic journals, including the *Journal of Accounting Research*, the *Accounting Review*, *Manufacturing & Service Operations Management*, and *Management Science*, and has served as a consultant to a variety of industries including financial services, retail, restaurants, and travel and leisure.

Scott Hodgins

As senior director for Cornerstone Advisors, Scott Hodgins is actively involved with the firm’s benchmarking, strategic planning, and technology assessment engagements. In addition, he leads many of the firm’s system selection engagements. Scott holds an MBA in finance from Texas Tech University and a BBA in finance from the University of Texas at Austin.

Tory McVay

Tory McVay is the senior vice president of retail delivery for OnPoint Community Credit Union in Portland, Oregon. Tory is responsible for the day-to-day management of the credit union’s 19 branches as well as investment services, business sales, facilities, and a staff of 230. His other responsibilities include sales and service leadership and initiatives, staff development, and implementation of key credit union strategies. Prior to joining OnPoint, Tory spent 15 years with Bank of America, most recently as senior vice president and consumer market executive.
Willard Ross

Willard Ross joined Coastal Federal Credit Union in Raleigh, North Carolina, in 2007 as senior vice president and chief retail officer. He is responsible for Coastal’s branches, member service, marketing, wealth management, and e-commerce. Willard has 35 years of retail banking experience in six organizations including a regional bank, a community bank, two savings and loans, and two credit unions. He has served as a president/CEO, in regional and group sales management positions, and in strategic cross-functional leadership roles in charge of retail banking, service quality, talent management, and leadership development.

Rob Rubin

Rob Rubin is the founder and CEO of Facilitas, a software and research provider to the financial services industry, and the creator of FindABetterBank, a resource that’s helped over a million consumers to determine which bank or credit union is the best fit for them. Rob has also written extensively on the importance of connecting with Gen-Y consumers and using organic search to increase online visibility. Prior to starting Facilitas, he spent eight years at Forrester Research, where he launched several research services designed to facilitate a better understanding of how technology influences consumer behavior.

Stephanie Sadowski

Stephanie Sadowski is a senior executive in Accenture’s CRM practice and focuses on the sales and service customer experience across all contact channels. Stephanie has worked with Accenture for more than 16 years helping clients design and transform the customer experience and supporting infrastructure.

Glenn Strebe

Glenn Strebe is the president/CEO at Air Academy Federal Credit Union (AAFCU) in Colorado Springs, Colorado. Glenn previously served the credit union’s membership as COO and CFO and was an auditor and financial analyst in the US Air Force prior to joining AAFCU. Actively involved in the credit union system, he serves on the Filene Research Council, the National Association of Federal Credit Unions (NAFCU) Region 5 Advisory Committee, and the NAFCU Services Corporation Advisory Committee, and he is a faculty member of the NAFCU Management Development Institute at Duke University. Glenn has also served on boards of credit union organizations at the national and local level.
Since the 1970s, credit unions have been investing in alternative delivery channels as a way to cut transaction costs and increase profitability. But do these investments pay? And how do they impact both short- and long-term member satisfaction and retention? Dennis Campbell, an associate professor at Harvard Business School, shares some unexpected conclusions.
The business case for investing in alternative delivery channels has typically centered on cost: Invest in automated phone services, ATMs, or online channels and your member delivery costs will plummet. While it’s true that technology does drive a drop in the cost of each transaction, these benefits don’t typically extend to the aggregate.

To understand why, start with a better understanding of which members generate the most profit for a typical credit union. The research shows that the top 30% contribute 110% of profits, while the bottom 10% don’t merely not contribute, they actually destroy profits.

Not surprisingly, credit unions want to learn all they can about both profitable and unprofitable members. Are members profitable because they’re constantly overdrawing their account and incurring fees—certainly not desirable behavior!—or are they profitable because they have a deep relationship with the credit union?

Research indicates that how a member interacts with the credit union can be an indicator of their profitability. On average, members who connect through online channels are 35% more profitable than those who only have an offline relationship.

During the colloquium, the audience weighed in on potential reasons why. They suggested that online users would tend to have higher levels of education and income, be younger—and more in need of income-generating loans, use more products.
On average, members who connect through online channels are 35% more profitable than those who only have an offline relationship.

Perhaps the bigger question is what happens to these members over time? As they use online channels more, do they use other channels less? Does a credit union have to actively promote the use of online resources or is their mere existence enough? Does the profitability of these online users continue to grow?

The research focused on the last question. Although there is no way to definitively measure what the profitability of members would have been had they never gone online, it is possible to estimate, and the estimates show that going online causes profitability to drop by 16%. These members are still more profitable than members who never use online channels, but they are less profitable than they would have been.

Why does this happen? Possible explanations include:

• **Stronger relationship with the credit union:** The online consumer is now a more engaged, multichannel member who uses more, not fewer, credit union services, which decreases overall profitability.

• **Knowledge drives activity away from the credit union:** These members will use the information gleaned online to do a better job managing accounts and educating themselves. As a result, these members will incur fewer fees (for things like overdrafts), find better rates (which might drive movement from the credit union), and tend to reduce the cushion in their accounts.

**Determining the True Cost of Going Online**

We’ve determined that what’s widely been viewed as a cost-saving measure—driving members to use self-service technology—may actually diminish credit union profitability through the expense of the investment and the unforeseen costs of changed member behavior.

To better understand the cost to serve members in all channels, consider the chart shown in Figure 2, which measures the cost to serve members in four categories: active online adopters—people who have used the online channel for at least one transaction;
non-active online adopters—people who signed up for online services but never used them; members who have always been online; and members who have always been offline. It also captures the cost to serve them over time, with zero being the point at which the member started using online banking.

This graph does a nice job of illustrating an important point: Members who use online channels are always more actively engaged with the credit union and always cost more to serve than those who don’t. Becoming active online doesn’t lead to a drop in service costs because these members become more engaged and use even more channels. They don’t necessarily substitute a more expensive transaction for an online one—they augment.

In the short term, this might seem like cause for alarm—your profitability is dropping! These members are costing you more! But the true benefit shows up long term, especially if the time horizon is moved out to three years: These online users are staying with the credit union at higher rates than offline members (see Figure 3).

But it’s not enough just to know that members are staying; we also need to know why they’re staying. Is it strictly because there are such high switching costs—that few people want to go through the hassle of setting up new accounts, new bill-pay, etc.? Or are they truly more satisfied with their credit union relationship? If members are only staying because of the high cost to switch, we might be in trouble.
To capture this, we developed a $2 \times 2$ with the variables of behavioral loyalty and customer satisfaction (see Figure 4). In an ideal world, all members would fall into the “apostles” category—both highly satisfied and highly loyal. Unfortunately, online users tend to fall into the “captives” quadrant: They are not very satisfied with their financial services provider, but they’re unlikely to leave because of the time and effort it takes to do so.

The Cost of Complacency

Some might ask, “Do we care?” After all, doing nothing doesn’t cost any time or effort and members are likely to stay regardless of an institution’s service efforts, at least in the short term. But credit unions, with their member-first philosophy, do care about having largely dissatisfied members, and realists understand that a do-nothing approach will only work in a static world: Any change in technology, the marketplace, etc., that makes it easier to switch could result in a mass exodus of these members.

There will always be a certain level of member defection. Without new competition in the marketplace, members in the lowest decile of profitability leave at roughly a 20% rate and even the most profitable members show some propensity to leave (see Figure 5).

Figure 4: Electronic Delivery and Customer Loyalty

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<th>Behavioral loyalty</th>
<th>Customer satisfaction</th>
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<tr>
<td>High</td>
<td>High</td>
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<tr>
<td>Captives</td>
<td>Apostles</td>
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<td>Low</td>
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<td>Loose cannons</td>
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Without new competition in the marketplace, members in the lowest decile of profitability leave at roughly a 20% rate and even the most profitable members show some propensity to leave.
Add a new, “high service” provider into the mix and defection rates show a bump in all profitability deciles, with the largest increase among members who represent the top 10% of profitability. Clearly, no credit union can afford to be complacent about its service levels.

**Short-Term Dip in Profitability Could Drive Long-Term Retention**

Although technology can drive additional costs in the short term, in the long run this research shows that institutions with higher online penetration rates have higher and more sustainable market share over time. The research also suggests that the primary benefit of the online banking channel may be to attract and retain more profitable members rather than to increase the profitability of current members. The reasons supporting technology investments may be unexpected, but the evidence continues to maintain the wisdom of making them.
Credit union members are becoming increasingly savvy—and demanding!—consumers of technology. Primed by the seamless personalization they’ve experienced on everything from Amazon to Zappos, many have come to expect a similar experience at their credit union. How can a credit union balance member technology expectations against the reality of profit margins? Stephanie Sadowski, a senior executive in Accenture’s CRM practice, shares some critical observations and recommendations.
The working title of this presentation was “Improving Customer Experience While Maintaining Profitability and Innovative Technologies.” That’s a mouthful, but it captures the challenges that credit unions face in striking a balance between the bottom line and appropriate technology investments.

To hit the right mix of service and investment, it’s important to look at the changing landscape from the perspective of both the member and the credit union.

The Members’ Perspective

Technology has become a critical element in the member–credit union relationship. Members are no longer comparing credit union technology to the bank down the street; they’re comparing it to what they experience with Apple or Amazon. Members are demanding seamless technology and channels that interface easily with one another: They might start a credit union transaction in one channel and finish in another and expect their data to move effortlessly between them. The channels that members use are becoming increasingly need-dependent: Members might not mind doing research online or with their mobile device, but if they have more complex transactions, they expect to have a face-to-face resource.

Unfortunately, the channels they’re most likely to use—mobile and ATMs—often don’t sync up with a member’s overall experience of the credit union. A lot more effort and analysis goes into the branch experience and the call center experience, and mobile and ATM often feel disconnected from other channels. Given that about 75% of members visit an ATM once a month and that more than half of US mobile subscribers own smartphones today, credit unions need to realign their focus.
Having access to the near-real-time data that technology provides has driven an increase in online/mobile monitoring. Consumers are becoming hypervigilant in managing their accounts and avoiding fees in the wake of the economic downturn, and contacts have gone up by 20%–30% in the past three years.

The Credit Unions’ Take

How are credit unions adapting to the current marketplace?

First of all, they’re grappling with economic and regulatory changes. These changes are largely beyond their control and have limited their income and impacted many of their choices. Credit unions know that investments in technology are important, but they are also painfully aware of the pressure to make the right investments, especially in the current regulatory and economic climate.

Many credit unions originally believed that technology investments would cut costs as members migrated to high-tech channels with a lower per-transaction cost. The reality has been quite different. Members are using both high-tech and high-touch channels, and in the past 10 years they’ve doubled the number of contacts with their credit union. Instead of being able to benefit from the cost advantages of less expensive channels such as mobile, credit unions are forced to adopt, and pay for, an increasing array of them.

Concurrent with this explosion in contacts is the pressure to have improved collaboration between the channels. Areas that have traditionally operated as silos must now connect in order to deliver a seamless experience for members.

In addition to internal pressures, credit unions also face a host of new competition, including recent entrants into the financial services space like PayPal. Many of these new players have little in the way of a physical footprint and are more nimble. They are often the drivers of new technology in the financial services space and are forcing credit unions and other traditional providers to play catch-up.

In the midst of these changes, credit unions must also deal with the reality that they can no longer control how information is shared about their institution. Instead of the orchestrated media and PR of the past, credit unions are now at the mercy of what their members choose to share through social media—good or bad.

Add to this the ongoing demand to increase operating margins, and it’s apparent that credit unions are under a lot of pressure.
Growth in Overall Transactions

As mentioned earlier, the addition of more channels has led to an overall increase in member contacts. While branches have the lowest compound annual growth rate (CAGR), there’s been strong or relatively strong growth in other channels and an explosion in mobile.

Starting in 2012, the predicted CAGR for member channels is as follows:

- Branch: 1.14%
- ATM: 1.32%
- Contact center: 3.57%
- Mobile: 91.29%
- Online: 8.58%

The Multichannel Journey

As credit unions add channels, most tend to follow some version of this path:

- **Step 1: Stand-alone model.** The branch is the main point of connection and the gateway to other services.
- **Step 2: Multichannel model.** The credit union maintains the branch and adds more channels—typically call centers, online, and mobile, and typically in silos.

*Figure 6: Customer Interactions with US Banking Institutions*

Source: Tower Group.
• **Step 3: Converged channel model.** The credit union begins to manage its channels in a more holistic fashion. Members can move seamlessly from one channel to another and location becomes less important. The credit union starts to create “virtual” connection points between employees and members, typically through videoconferencing. This makes it possible to provide members at every location access to a wide array of services without bumping up staffing levels.

• **Step 4: Extended enterprise model.** In this model, the credit union takes a step beyond converged and begins to add third-party partnerships to the mix.

On average, most credit unions are probably at the converged channel level. They offer a variety of channels but are not entirely sure of how to deliver both customer loyalty and profitability strategically.

### Moving Toward an Extended Enterprise Model

As they attempt to move through these stages—with the ultimate goal of creating an extended enterprise—credit unions need to consider three critical elements:

• **Real-time, intelligent channel integration:** Most credit unions aren’t currently able to offer this because the various platforms continue to operate as silos. Because members place a high priority on real-time data, credit unions need to as well.

• **Multichannel incentives:** Too often, incentives aren’t lined up with desired outcomes. Think about the early days of the ATM: Tellers worried that ATMs would take away their jobs and were often pleased when an ATM broke and a member was forced to conduct a face-to-face transaction. What the teller wasn’t thinking about was the overall loss to the credit union: The member was probably frustrated by the broken ATM and viewed the transaction as a negative. People in the branches need to be rewarded when online and mobile channels are successful and understand the overall benefits to the credit union.

• **Workforce composition:** Technology makes it possible to share staff resources between facilities—e.g., with videoconferencing, a loan expert can be shared between branches—and it also changes employee roles. This is likely to be most noticed at the teller level. As members use technology to handle transactions like check cashing, the teller can move into a more relationship-based financial advisor role. This could require training and/or new hiring standards.
The Challenges of Channel Convergence

Moving to an interconnected, multichannel business model isn’t easy. It takes time, energy, and consideration of these critical areas:

- **Making the right technology investments**: No credit union can afford to invest in everything—how do they balance the perfect with the pragmatic and determine what to focus on?
- **Managing the interim state from both the credit union and member perspectives**: How will the credit union manage the changes, hassles, and expectations along the path to convergence?
- **Workforce considerations**: How do job descriptions and hiring practices need to change?
- **Organizational impact**: Does your current structure allow you to achieve your goals?

Eight Tips for More Effective Convergence

With these challenges in mind—and drawing from the experiences of clients who have gone through them—Accenture developed an eight-step plan to improve a credit union’s move to channel convergence:

1. **Start with priority member interactions**: Don’t look at everything. Focus on make-or-break interactions that might drive a member to leave or remain at the credit union.
2. **Articulate the endpoint vision and key milestones**: Don’t be swayed by “cool” technology; start with the end goal and find the technology that will help to achieve it. For instance, videoconferencing can be a cost-effective way to bring employee resources to multiple branches, but it can also be an expensive flop if your members are highly resistant to anything but a true face-to-face interaction on certain transaction types.
3. **Pilot to prove value and get buy-in**: Technology and member expectations are changing so quickly that it’s not always possible to spend a long time on evaluation and execution. It’s likely that no other organization is already doing what you want to try and you might have to pilot a program yourself. One way to cut costs and implementation time: the web. This is typically a faster and less expensive way to pilot a project.
4. **Have a truly multichannel, cross-disciplinary team**: Adding breadth to the team helps to ensure that the concerns of every channel are heard and addressed and leads to a better final result.
5. *Use a multichannel member decision engine:* It’s critical to create a place where data from every channel can be gathered and mobilized, but it’s equally critical not to get bogged down in this process. Instead of worrying about how to manage every piece of data, start with your priority member interactions and determine which data you need in order to address these issues and how to run analytics to determine what’s going right or wrong in these areas.

6. *Get digital right:* It’s typically faster and easier to pilot programs in the digital channel.

7. *Rethink value creation and align incentives:* Provide incentives that encourage employees to drive members to desired actions. For instance, say a credit union wants to drive online loan applications. If branch employees are only rewarded for applications that physically occur at the branch, they will have little reason to encourage members to use the online channel.

8. *Win the battle for hearts and minds:* Recognize that it’s critical for in-branch staff to feel like part of the team. They should be aware of and know how to use the tools being offered through every channel so that they can support and promote the credit union vision.

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**Keep the Focus on the Member**

As credit unions determine what channels to embrace, it’s critical to make sure that decisions start and end with the member. Keep your focus on:

- **Member intentions:** Consider what members are trying to accomplish when they engage with a channel and design a solution that allows it to happen. For instance, research for Delta Air Lines showed that the vast majority of people visiting the Delta website want to do one of five things, so that’s what the home page focuses on. And Starbucks realized that customers were spending their time in line looking at their phones, so they created a mobile app that allows customers to load money right on their phones so they don’t have to fumble for a debit card at checkout.

- **Real-time personalized service:** Companies like Zappos and Amazon do an exceptional job of mining customer data from each transaction to offer better service with each contact. Dell learned that price was the most critical factor for customers who bought one of their computers through Walmart and stopped focusing on a service message.

Perform due diligence on members and give them more than they know they want.
• **Proactivity:** Perform due diligence on members and give them more than they know they want. For instance, if Question 1 leads to Question 2 90% of the time, just give them the answer to Question 2 right away. Discover uses navigational data from its website to pinpoint when a user appears to be stuck and is likely to need help and proactively invites them to chat.

**What Does This Mean for the Branch?**

Does the explosion in alternative channels mean that the branch is dead? No. In fact, branch presence remains extremely important for a large segment of users, and some credit unions continue to build new branches. The difference is that their new location choices are probably driven more by member demographics than geography alone.

Another thing that will continue to change is branch staffing. As mentioned earlier, video technology is making it possible to leverage specialized skills and share them among branches.

The look and feel of branches is changing, too. Branches are likely to either shrink in size or be divided between general consumer areas and spaces for specialized services and consulting. And this footprint will continue to change as members become increasingly reliant on social communities and the digital ecosystem for their financial needs.
The broad and rapid adoption of online and mobile channels spells the end of the branch as we know it. If credit unions truly want to meet member needs, they must stop investing in brick and mortar and focus their energies—and dollars—on member-preferred channels. Rob Rubin, founder and CEO of Facilitas and creator of FindABetterBank, recommends these steps toward transformation.
Will the credit union member of the future ever need to enter a branch? According to Brett King, author of Branch Today, Gone Tomorrow, probably not. After all, technology has made it largely unnecessary to ever conduct a face-to-face transaction. Paychecks are deposited via ACH; everything from groceries to utilities can be paid for via credit, debit, or an online bank transfer; and ATMs are where consumers head for cash. Members who may have used an automated telephone banking system in the past now go online to handle routine transactions and, according to King, mobile banking is seeing adoption rates that are 300%–500% faster than the adoption of Internet banking.

Brick and mortar is still alive . . . for now. But credit unions with an eye to the future need to take a hard look at where future investments should occur.

**Face-to-Face Transactions Are Largely Disappearing**

Both online and mobile banking have seen strong growth in recent years, and when it comes to account access, the act of physically visiting a branch lands at a distant third place (see Figure 7).

Even if there are still kinks to work out of the online account opening (OAO) process, there has been robust growth in demand for this option and it’s expected to grow (see Figure 8). Credit unions who haven’t actively developed this channel are under pressure to do so now.

Remote deposit capture (RDC) may drive even more traffic away from the branch, especially with business members. A slight majority of households say they are unlikely to adopt RDC (see Figure 9), but this could be explained in part by a lack of knowledge about the service. The data are also more than three years old.
Gen Y consumers (often defined as those born between 1980 and 1999) are especially unlikely to view the branch as a necessary part of their banking experience: After all, they’ve grown up in an era in which convenience is king and online and mobile channels are ubiquitous. This generation is more comfortable sharing personal data through electronic

**Young Members Demand Effortless Experiences**

**Figure 7: What Is Your Primary Method of Accessing Financial Accounts?**

- Online banking: 46%
- Mobile: 26%
- Branch: 10%
- Telephone: 4%
- Other: 13%

Base: Consumers with mobile banking apps.

**Figure 8: Number of Online Applications Initiated in the United States**

- 2008: 60 million
- 2009: 66 million
- 2010: 73 million
- 2011: 80 million
- 2012*: 85 million

*Estimated data.

**Figure 9: Likeliness to Use Mobile RDC, 2009 Survey**

- Likely: 39%
- Moderate: 23%
- Unlikely: 38%


Source: Javelin Strategy & Research, April 2009.

Gen Y consumers are especially unlikely to view the branch as a necessary part of their banking experience.
channels and expects to be able to answer virtually any question without having to interact with another person—unless it’s online.

To win over these consumers, credit unions don’t need to build another branch. They need to:

• Be a visible presence where this target looks for products and services (e.g., Google and Yelp) or socializes (Facebook).
• Provide convenient ATM access near Gen Y members’ homes, schools, and work.
• Enable banking anywhere.
• Deliver easy answers to banking questions through mobile/online channels.

According to in-depth, 45-minute interviews conducted by the Massachusetts Share Insurance Corporation with 24- to 30-year-olds who were actively looking for a new banking relationship, the right financial services partner also needs to:

• Offer mobile banking applications—100% of respondents wanted these.
• Provide ATMs—86% demanded these.
• Have a good website—43% of respondents would rule out a provider that didn’t have this.

Competition Is Heating Up

While credit unions’ main competition has traditionally come from the banking world, today they face a much broader array of players, some with high levels of technological savvy and very deep pockets.

Simple

One critical new source of competition is Simple.com. A well-funded startup that was cofounded by some of new technology’s biggest names (including Alex Payne, formerly of Twitter), Simple was launched in the third quarter of 2011. Its mandate is, well, simple: make the banking experience easier, more affordable, and more user-friendly. Simple positions itself as a bank replacement that partners with “chartered banks that hold your deposits in FDIC-insured products. They take care of money, we take care of customers, and together we’re delivering a new type of financial experience that’s easier, faster, and friendlier.”

This model completely eliminates the branch and face-to-face interactions. Consumers who need information not offered on the Simple website can use mobile and web apps or speak with a customer relations team via phone. Its benefits: very few fees (only on select services such as international wire transfer), a host of mobile/online
tools, and an instant understanding of what’s “safe to spend”—the current balance less pending transactions and savings goals.

**Figure 10: Lending Club Investor ROI by Risk Classification**

<table>
<thead>
<tr>
<th>Returns (%)</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low risk</td>
<td>5.83</td>
<td>8.16</td>
<td>9.28</td>
<td>10.35</td>
<td>12.33</td>
<td>13.47</td>
<td>12.40</td>
</tr>
<tr>
<td>High risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Casey Research, March 2012, based on Lending Club 2011 financials.

**The Lending Club**

The Lending Club’s “social lending” model operates like a huge cooperative. According to its website, club members directly invest in and borrow from one another. This model touts itself as avoiding the cost and complexity of the banking system while passing better rates and returns on to its members. The Lending Club is making roughly $36 million (M) in loans each month, and its lenders are currently seeing high returns and lower than average default rates by risk classification (see Figure 10).

**Pressure to Shift Investment Away from Branches**

Options like these either separate banking activities from banking relationships and turn financial institutions into invisible utilities (Simple) or completely remove the financial institution from the equation (the Lending Club). In this world, physical facilities have no value whatsoever and investments in them only take away from a credit union’s ability to make investments in more desirable mobile and online channels.

If credit unions are to compete in a world where strong competitors don’t have the expense of brick-and-mortar facilities, they must actively work to downplay the branch and promote more affordable and desirable channels. This won’t be an easy task: Research shows that many credit union members continue to use the branch for a variety of tasks—even when more affordable options exist—and that those who opened their account at a branch are more likely to continue to use this channel.

A critical first step is to understand the value of nonbranch channels, both as a more affordable place to open accounts and as an avenue.
Research shows that nonbranch channels can be successful avenues for the sale of other products, and credit unions that want to survive in an online- and mobile-driven world need to accept that reality.
Will the growing popularity of mobile and online channels lead to the disappearance of the branch? According to Scott Hodgins of Cornerstone Advisors, the answer is “not anytime soon.” Because while “big print” messages seem to indicate that branches are decreasing in popularity and importance, the “small print” shows something else.
Like all industries, credit unions are struggling to determine what steps they’ll need to take to stay relevant in the coming years. Too often they’re drawn to the idea that creativity, vision, and innovation are what will save the day—and they ignore the reality that resourcefulness, practicality, and financial performance are much more important.

Nowhere is this more apparent than when we look at the future of the branch. Many of the big players appear to subscribe to the message that online banking and mobile options will become the key reasons for choosing a financial services provider. The reality is quite different. Because even though nearly 50% of customers have enrolled in online banking, little more than a third are active users.

And although the adoption of mobile banking had grown to 16% by the end of 2010, the vast majority of consumers are only using

---

**Figure 12: Internet Banking Users as a Percentage of Checking Accounts**

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrolled</th>
<th>Active</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>32</td>
<td>21</td>
</tr>
<tr>
<td>2007</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td>2011</td>
<td>37</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: The Cornerstone Report for Banks.

**Figure 13: What Tasks Are Being Done via Mobile Banking?**

<table>
<thead>
<tr>
<th>Task</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check account balances</td>
<td>70</td>
</tr>
<tr>
<td>View transactions</td>
<td>33</td>
</tr>
<tr>
<td>Pay bills</td>
<td>27</td>
</tr>
<tr>
<td>In-FI transfers</td>
<td>20</td>
</tr>
</tbody>
</table>

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mobile to check their balances. The importance of mobile can’t be ignored, but it also shouldn’t be overemphasized: It’s not even close to shutting down branches.

Is OAO as Critical as It Seems?

The “big print” message is pretty alarming: “In this online world, institutions that do not offer online account opening run the risk of losing potential account holders to those that do.” OAO is certainly valuable and an area with great potential, but considering that substantially less than half of all financial institutions offer it, perhaps the threat has been overstated.

In large part, this is because many back office systems don’t effectively support OAO. A study by Javelin Research and Strategy showed that when consumers tried to use OAO, only 53% were successful. That means that nearly half of the people who were interested in this technology and committed to opening an account in this way weren’t able to. And, perhaps even more alarming, a third of “moneyhawks,” who are defined as tech-savvy users of multiple electronic channels, were also unable to open an account online.

When consumers tried to use OAO, only 53% were successful. And, perhaps even more alarming, a third of “moneyhawks,” who are defined as tech-savvy users of multiple electronic channels, were also unable to open an account online.

Cornerstone’s firsthand field research attributes these OAO failures to a number of things, including:

• Poor integration between OAO and other core systems.
• Lack of eSignature technology.
• OAO only available to existing members.
• Desired account type not supported for online opening.
• Credit card funding isn’t widespread.

And, frankly, even if these systems are in place, the timeline to open and fund an account using online channels can still be a week or more, whereas a member can go into a branch and walk out with temporary checks and an instant-issued debit card and PIN in less than an hour.
Small Businesses and the Branch

When the focus moves to small businesses, the branch becomes even more important. Considering that many credit union loan and revenue opportunities are coming from this segment, it’s critical to provide the channels they prefer.

Why is the branch important to small businesses?

• Many are retail-focused with heavy cash needs (both deposits and withdrawals).
• Most small businesses have a lot of questions that aren’t answered effectively online or at the call center: These members need to have access to branch expertise.
• Many either don’t understand or don’t trust online channels.

Although there’s been extensive press about the value of automated tools and RDC to businesses, to date most haven’t made the leap. In fact, one study showed that fewer than 5% of small businesses are using RDC and that less than 25% even understand what it is.7

A Status Report on Branches

There’s no denying that the number of branch transactions is dropping and that electronic channels are increasing in popularity.

But it’s important to recognize that a few big players are skewing much of the data. For instance, nearly half of the branch closures can be attributed to two players—Wells Fargo/Wachovia and Bank of America—and almost 90% of US banks report that their branch network didn’t change in the past year. Overall, there were actually more branch openings than closures (see Figure 17).

52% said that branch location was the top reason they selected their financial institution.
Consumer research supports the importance of the branch. In a recent survey of 12,000 consumers:

- 52% said that branch location was the top reason they selected their financial institution.
- 59% had performed a branch transaction within the last month.
- 74% opened their most recent account at a branch.
- 27% of those who opened an account online said branch location drove their decision.

A report by Novantas supported these findings, with 87% of respondents picking branch location as the top reason for selecting

**Figure 15: How Do You Prefer to Bank?**

<table>
<thead>
<tr>
<th>Year</th>
<th>Online</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>36%</td>
<td>25%</td>
</tr>
<tr>
<td>2011</td>
<td>62%</td>
<td>20%</td>
</tr>
</tbody>
</table>


**Figure 16: Transaction Growth, 2007–2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>Online</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Tower Group.

**Figure 17: Branch Openings and Closures**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total opens</th>
<th>Total closes</th>
<th>Net opens</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2006</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2007</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2008</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2009</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2010</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>2011</td>
<td>5,000</td>
<td>-2,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Source: Bancography, March 2012.
a financial institution and 47% saying that a financial institution without a branch wasn’t legitimate.9

The Network Effect

When it comes to gaining a better understanding of the importance of the branch, Bancography has done some very interesting research centered around what’s known as the network effect. This means that financial institutions with denser branch networks gain a disproportionate share of deposits: For instance, an institution that owns 15% of the branches in a market might capture 20% of deposits, while another institution with 5% of the market might only have 3%.

This has proven to hold true over a period of time—studies were conducted in 2004 and again in 2009—and in markets of all sizes, but especially in those with populations of 1.5 million households or more. The long and short of it is that depth beats breadth: Unless you hold the top position in your category, it’s better to have a dense branch network in a small area than to have a toehold in many markets.

The Future of the Branch

The research clearly indicates that branches continue to be important, but that doesn’t mean they can maintain the status quo and remain successful.

Additional research from Bancography shows that the median five-year deposit level for *de novo* branches that opened between 2004 and 2006 was only $19M and that just 17% of these branches had more than $40M in deposits after five years. This is not a sustainable level and this indicates that branches must get smaller and leaner: 5,000-square-foot branches are a thing of the past at current deposit levels.

And as much as financial institutions would like to believe that the branch is all about members having heart-to-heart conversations about their financial position and opportunities for cross-selling, the truth is that most consumers use them for transactions: A Cornerstone report showed that in-branch transactions outnumber account openings by 100 to 1.10

What can credit unions do to improve the productivity of their branches?

- Recognize that relationships don’t have to happen face to face: Effective sales and relationship building can happen through other
channels, too. Members are likely to make an initial contact by phone, e-mail or a web inquiry to determine if it’s worth their time to meet in person. Ramp up outbound sales efforts, too—don’t force the member to come to you.

• *Understand the limitations of the financial retail “experience”*: Most branches would benefit from an interior design upgrade, but that won’t turn your branch into a place where members want to hang out. Be realistic about your expectations in this area and the importance you place on them.

• *Train staff and create generalist positions*: A credit union’s most critical product is knowledge, and to gain that knowledge credit unions must make a commitment—both in time and financial resources—to training. And not just training in effective cross-selling, but training in the topics that members want to know more about, like retirement savings and how to afford to put their kids through college. And instead of designating staff as tellers or member service representatives, create generalist positions. Use ongoing training to ensure that both branch and call center staff have deeper product knowledge than vendors on online banking and bill pay, mobile banking, payments, online deposit account opening, online lending, and cash management.

• *Deliver fast service and pain-free fulfillment*: Slow fulfillment after a sale leaves members frustrated and impatient. Address this Achilles’ heel and you’ll create a better overall branch experience.

• *Create cumulative conversations*: Deeper relationships and higher levels of revenue don’t happen overnight. They can take years to develop and require an ongoing commitment to developing training and technology that facilitate better, more “on track” conversations.

• *Leverage the benefits of a leaner branch network*: These can fund advances in electronic delivery and drive future growth.

**A Case Study**

This case study illustrates the benefits of Bigole Credit Union (BCU) opening a new branch versus investing in an electronic upgrade. Option 1, opening a new branch, is laid out in Figure 18.

Option 2, investing in an electronic upgrade, has the following potential benefits:

• Expanded call center hours.

• Upgrade and improvement in integration of online deposit/loan origination.

• Enhanced online marketing.

• Beefier web content/delivery.
• Mobile remote deposit capture.
• Staff committed to social media and online marketing.

A cost comparison is shown in Figure 19. Although the hard dollars seem to indicate that Option 2—the electronic upgrade—makes the most sense, a new branch might actually offer a better return on investment. Consider the categories shown in Figure 20 and judge for yourself which are best served by online upgrades or an additional branch.
During the wrap-up session we took a closer look at three innovative credit unions that envision the future of the branch in remarkably different ways. One is cutting branches, one is adding them quickly, and the other has eliminated tellers from its branches altogether.
The Branch of the Future: No Tellers On-Site

Willard Ross, Coastal Federal Credit Union, Raleigh, North Carolina

The key questions that drove much of the day’s conversation were “Why do branches underperform?” and “What can we do about it?”

Let’s start with that first question. There are seven key elements that are contributing to branch underperformance:

- **Banker’s hours:** That phrase is widely meant to convey limited hours and an easy job. To serve members better, branches must be available when the members need them.
- **Teller expense:** This is a huge cost in most branches. Add in the downtime that’s inevitable throughout the day in a decentralized model and the costs associated with high turnover rates—which can be as high as 40%–50%—and it’s no wonder that teller expense is a drag on performance.
- **Fixed costs:** The typical expenses associated with running a standard-size branch office are overwhelming and hard to eliminate.
- **Consumer shift to electronic transactions:** It’s not entirely clear how much this shift has affected branch performance to date, but it’s inevitable that the shift will continue and eventually drive change.
- **“Jack of all trades/master of none” mentality:** Branch managers are expected to wear two hats: operations and sales management. These roles demand very different skill sets and the average branch manager has neither the time nor the ability to do both well.
- **Reactive order taking:** Credit unions are committed to offering warm and friendly customer service, but they tend to only take care of a presented need.
- **Lack of member focus:** Often, branch staff are in the middle of another task when a member walks through the door and the
member doesn’t get the immediate assistance that could help drive better performance.

How can credit unions minimize these drags on performance? At Coastal, the game changer was the personal teller machine, or PTM. This is a video-based machine that allows the credit union to have centralized tellers in one location who can serve members across the country. It’s not an ATM or a self-service tool; it’s a one-to-one experience that delivers the benefits of personal service at much lower costs.

Coastal’s foray into video tellers began with a single-branch pilot in 2003, and by late 2008 it introduced uGenius video tellers. By the end of 2009, 10 branches had the technology and by mid-2011, tellers at all 13 branches had been replaced by video.

PTMs allow Coastal to accomplish a number of goals:

• **Offer extended hours**—a true service differentiator in its marketplace: Coastal PTMs are available seven days a week from 7 a.m. to 7 p.m. That’s nearly double the hours of the past, and Coastal is the only financial institution in its market that’s open this many hours.

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• **Convert all teller lines and achieve economies of scale**: The conversion reduced teller costs by 40% without concurrent layoffs—Coastal worked diligently to find new opportunities for tellers.

• **Provide better service than traditional tellers**: Member reaction was not favorable at first, but over time members have come to accept and even like the PTMs. Coastal received a Net Promoter Score of 60 for teller transactional service—a very solid score—and transaction time has dropped.

• **Create the best teller work environment**: Coastal’s turnover rate was low before the adoption of PTMs, and now it’s in the 10%–20% range—and the only reason it’s even that high is because it takes a while to get the right mix of full- and part-time employees to accommodate the 7-7-7 schedule.

• **Free up platform staff to serve better and sell more**: Removing tellers from the branch allows Coastal to share managers between branches. The credit union has gone from 15 branch managers to 7 and anticipates dropping to 4 in another year; each of these managers is seeing improved sales levels. On average, banks have daily sales under 1.5 per day. Before adopting PTM, Coastal’s
were 2.36; as of February 2012 they were 2.73. The credit union opened 26% more checking accounts and closed 40% more consumer loans in 2011 than it did in 2010. Changes in the branch model also allowed Coastal to start offering mortgage lending in the branches between April 2011 and April 2012, and the branches are now responsible for 23% of the credit union’s mortgage applications and closings.

- **Provide lower-cost branching options:** Moving tellers out of the branch also allows Coastal to provide more flexible and cost-effective branching options. For instance, it recently opened a 400-square-foot branch, plus PTM, at one of its select employee groups (SEGs).

Another plus: There have been no robberies at the credit union since full implementation of the PTM system.

**Swimming Against the Tide: Opening New Branches**

**Tory McVay, OnPoint Community Credit Union, Portland, Oregon**

When senior vice president for retail delivery Tory McVay first arrived at OnPoint in 2006, it was a nine-branch institution with what could charitably be described as “B–/C+” locations. The credit union offered few products, drove everything by price, and was being kept afloat by its 52% efficiency ratio.

The credit union made the bold decision to grow—not just its membership and its number of cross-sales, but its number of branches. Pre-recession, the target was 8–10 branches a year; post-2008 the credit union remained committed to growth but with a more temperate average of 3 new branches a year. OnPoint has added 10 branches since adopting its pro-branch approach.

As of the end of 2011, OnPoint’s strategy has largely been successful.

The credit union has added roughly 50,000 new members, many through its new locations, and its net interest margin has improved. Though its efficiency ratio has increased, it’s still under 60 (current level: 59). OnPoint currently has almost 3.6 cross-sales of services per member, and the target is 5. Even its poorly located existing branches have benefited from the addition of new branches.
One important lesson learned: Brand awareness matters and takes time and money to achieve. OnPoint learned this the hard way with its new locations. Branches that they expected to be profitable by month 20 won’t reach that milestone until the 38-month mark.

Embracing Electronic to Meet the Needs of Tomorrow’s Members

Glenn Strebe, Air Academy Federal Credit Union, Colorado Springs, Colorado

According to Bill Gates, most organizations tend to overestimate what will happen in 2 years and underestimate what will happen in 10. A classic example: the iPod. Who could have envisioned the changes one small device could drive?

With the impact of the iPod in mind, this credit union started analyzing behavioral economics to help drive strategy: How are people changing? How are these changes impacting the life cycle of credit union membership? What do people value and how can we use this information to differentiate the credit union? It also factored in the reality that more than a quarter of its membership doesn’t live near a credit union branch.

A deeper dive into branch usage was especially useful and uncovered some relatively startling statistics: Only 20% of credit union members used the branch on a monthly basis for three months in a row, and when the timeline was pushed out to six months, this dropped to just 12%, and to 8% at 12 months. In short, $3.5M of operating expenses was going to serve just 20% of the credit union’s membership.

Using its data, the credit union came to three important conclusions: Members were extremely busy and placed a high value on saving time, electronic channels could deliver services in a member-valued way, and some level of branch closures was likely inevitable.

These conclusions in turn drove some important strategic moves:

- **Closure of four branches**: The credit union closed two branches in 2010 and two more in 2011 and is on track to close its corporate office in 2012. The credit union says that it can envision a branchless future, though this is not a foregone conclusion.
• *Embrace of electronic channels:* Air Academy is working to drive transactions out of the branch. Its data show that it has a tendency to overservice its membership at a level that is unaffordable and unsustainable. It has hired a vice president of electronic delivery—which is relatively uncommon for a credit union of this size—who has been given this mandate: Write down everything that can be done in a branch and find a way to do it electronically.

The credit union’s long-term goal: “To be as good as USAA and as cool as Apple.”

**Q & A**

*For Coastal: What is your branch transactional NPS (Net Promoter Score, a tool used to gauge member loyalty) and your overall relationship score?*

**Ross:** Overall our relationship score is 62 for primary and secondary markets. It’s not as high in Charlotte where we closed all our branches, but we did move from a –36 to a +2 and kept 60% of our business in that market. We are working on a new transactional score for the whole branch platform experience, which isn’t in place yet, but last year our score was between 55 and 65 for the checking account experience only.

*At Air Academy, what is your growth rate as you’re closing branches and your projected growth rate as you continue to close them?*

**Strebe:** We made a conscious decision not to try to grow during this period—and if you look at the economics of trying to attract deposits over the last few years it’s obvious that it wasn’t beneficial to do so. This year we decided on a growth target of 5% and we’re on track to accomplish that; in the out years our goal is 10%. Most people are especially curious about the places where we closed branches, and growth was flat there, too. We haven’t seen a complete loss in any market.

*Are tellers making referrals and cross-selling at Coastal? If so, how?*

**Ross:** When we first introduced the PTM, the focus was on fast, accurate service. We didn’t have any expectations of cross-selling, though, of course, some tellers just did it naturally. Once the system was stabilized, we did start holding tellers accountable for opportunity spotting and making passive and active referrals. We use a tool called Econic to help them do this. It’s a frontline sales effectiveness tool...
Two questions for Coastal: Can a member withdraw cash without interacting with a teller, and how do you address member service issues like a debit card dispute?

Ross: The answer to the first question is yes: We have separate ATMs at each location that a member can use without assistance. And, as far as face-to-face assistance, each branch has a platform team who can step in and handle things that the teller isn’t able to. We actually don’t want tellers handling tasks that take more than a couple minutes. Our average PTM session is two minutes and 40 seconds—versus the four minutes we currently had with face-to-face—and we want to keep it at that level.

This is a question for all three credit unions. What type of communication strategies did you use with staff and members as you rolled out these changes?

McVay: When we implemented our strategy, people at every staff level were involved. The staff was divided into teams and they reported on their projects on a monthly basis.

Ross: We had a multifaceted communication plan. First there was an all-employee meeting to get everyone on board, and then there were frequent updates on the Internet and in small group meetings. Over a two-and-a-half-year period, we reduced our teleforce by 40%, and that’s something that we communicated up front. We worked hard to find places in the credit union and we also had a “stay bonus”: If a teller couldn’t find a job within the credit union, we gave them a bonus if they stayed until conversion. Most people were able to find a position, and there was some normal attrition. I think we only paid this bonus to three people.

Strebe: I am a big believer in transparency. We only have 130 employees and I know each of them by name and I visit the branches at least once a month. It’s a commitment to the classic leadership model of relationship, relationship, relationship . . . to be transparent and authentic and to tell your employees what the future holds. On the member end, we’ve shared information about the closings in the newsletter—which only 1%–2% of people actually read—and I’ve also gone out to some of the branches that we’ve closed.

Ross: A couple of months before the PTM rollout, we put a machine in the vestibule and extended the credit union’s hours. If people were lined up waiting for a teller, an employee might invite them over to the PTM and show them how to use it. And then, when the

tool that we installed at the branches about six months ago and that we’re now moving to the teller and contact centers.
tellers disappeared and there were only PTMs, we also had employees on the line for a whole month to help members with their first experience.

**As you close branches, what is the rationale that you give to members and what kind of pushback have you experienced?**

**Strebe:** You’re always going to get pushback and it usually takes about 60 days to wind down. The rationale that we use is that these closures are driven by our society’s evolution to self-service. Think about all the self-service things you do in a day, from pumping gas to checking out at the grocery store to stopping by the ATM. We’ve become a highly self-service economy and with smartphones that’s going to be even more true. When 80% of our members don’t use a branch, should they be subsidizing the 20% who do?

There will be some members who just aren’t comfortable with electronic transactions and then we might not be the best financial institution to serve them.

**Ross:** We’ve also had to close some branches—often because they didn’t have a sustainable deposit level or because they were simply out of market. We show the members how their needs can be met through alternative delivery channels, shared branches, or at a nearby branch. Sometimes they complain, but they stay with us. We have members in all 50 states, so many of them aren’t going to have access to a branch. Charlotte was a really hard market. We followed IBM there, and when IBM left we stayed for 15–20 years even though we had very little market share. When we finally decided to close the branch, we ended up sending a VP down there for three months to handle the transition.

**As OnPoint is adding branches, what are you doing differently to improve your new branches? Is five a year the new norm for you, and are you doing build-ups or storefronts?**

**McVay:** For one thing, we’re looking at smaller footprints—not so much the physical space but the number of employees. Our model is seven full-time employees, and in our current decentralized lending environment, that’s a challenge because it takes a tremendous amount of manpower and training to get up to speed on the various loans. Our business loans are centralized.

We’re also trying to drive as much activity to our ATMs as possible. For a while we didn’t offer tellers during our Saturday hours and just focused on sales, but that blew up in our faces because people wanted tellers. The teller line can be 20 deep and our four ATMs will be empty because some people prefer to use a teller.
As far as location, we try to build near and partner with attractors: We want our members to have multiple reasons to come to an area and create more of an overall experience. We’ll continue to budget for new branches, but good locations can be hard to come by. Some years we build three, wait a year, and then build four. If we find the right locations, we’ll definitely build.

We tend to buy existing facilities—for instance, in central Oregon we bought a bank branch. Otherwise the permitting for a build-out is very time prohibitive.

Who was involved in the strategy direction for branching? What was the driver?

McVay: The entire executive team was involved. There were different opinions in the beginning, but we spoke as one voice by the end. We position ourselves as the old-fashioned credit union with technology. Everything we do is decentralized, with very little in the way of back-office operations—though that might change over time. It’s very inefficient, but people like the variety and our turnover rate is very low, about 8%.

Ross: When I got to Coastal four years ago and saw the PTMs sitting on the shelf I was like a kid in a candy store. I saw the potential of taking the bold move of converting all our branches to teller-free and sold the rest of the team on making this transition and getting it done relatively quickly.

Strebe: In our case the changes were driven by the overall change in membership demographics. We’ve had strong growth—we’re about four and a half times larger than we were when I came to the credit union in 1993—and the majority of our members are going to electronic channels. When we presented data about our membership, it was obvious that a change was occurring and that we needed to change along with them.

Tory talked about the challenge of growing in a market where you don’t have an established brand. What lessons did you learn?

McVay: Don’t go there! We are actively looking for merger opportunities with someone who has a built-in member base and a similar culture. We know this will present challenges, but we think it’s well worth it as opposed to the pain of building from the ground up. It’s been really hard to have relevance in new markets.


The Future of the Branch
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