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CO-OP FINANCIAL SERVICES

WHITE PAPER

Shared Branching Realities Revealed: Facts Every Credit Union Executive Should Consider

Executive Overview

While there are nearly 7,200 shared branching office and kiosk locations in the nation, there exists a set of shared branching misconceptions that prevents credit unions from adopting this all-important member-driven service.

From a member perspective, shared branching is widely supported as it allows members to make deposits, withdrawals, loan payments, transfers, or purchase money orders and traveler checks, among countless other personalized transactions, regardless of geographic location. The member only needs to produce their credit union's name, account number and valid government-issued photo identification, such as a state driver license, or U.S. Passport.

In practice, shared branching is demonstrative of the cooperative, inherent nature of the credit union industry. However, some credit unions, both small and large, underestimate the cost of inconveniencing their members. To this end, the thousands of branches maintained by big national banks offer serious competition for the allegiance of the countless consumers, who prize having many convenient places to interact with their financial institutions.

While there has been more industry discussion about shared branching in recent years, this sound business philosophy has been viable for decades. Take, for example, Carpenters and Millwrights Federal Credit Union, which began over 50 years ago with 27 members. By 1997, the renamed Midwest Carpenters Federal Credit Union had just under $25 million in assets with nine employees working in its original Hobart, Indiana headquarters. As a result of a progressive shared branching initiative, the credit union currently serves more than 14,650 members residing in 15 states with just 13 employees working in the same headquarters.

This white paper will debunk misconceptions and inform credit unions on the benefits and realities of shared branching of which every credit union executive should be made aware. A detailed analysis coupled with the examination of industry research, case studies and exclusive interviews with participating shared branching credit union c-level executives will serve to provide new insights into the investment potential in shared branching.

Misconception One: Shared Branching Is Too Expensive

While focusing on the bottom line in the wake of The Great Recession is the new norm, certain credit union executives mistakenly look past shared branching as a revenue generator, because they deem it will be too expensive, especially in terms of data processing costs.

Is shared branching an expense? The answer is yes, but it should be perceived as an investment with the potential for quickly realized returns. All credit unions participate in shared branching as issuers, meaning they allow their members to visit other locations in the network. Credit unions can also participate as an acquirer, in which case they handle transactions for guest members in some or all of their facilities. As an acquirer, a credit union has the opportunity to generate revenue, or at least offset issuer costs. For issuer-only institutions, providing convenience gives a credit union the opportunity to expand relationships and eventually see financial gains, resulting in real value.

According to the April 2012 Callahan & Associates paper, "The Cooperative Solution to Convenience: A Report on Shared Branching," when properly executed, participating in shared branching as both an issuer and acquirer enhances a credit union's value proposition. The report centered on three key peer group segments: credit unions in excess of $35 million in assets that do not participate in shared branching, shared branching credit unions that are both issuers and acquirers, and shared branching credit unions that are only issuers.

"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," the report stated. Critical balance sheet growth metrics include loan growth followed by share growth and asset growth. To this end, issuer/acquirer 12-month loan growth was 275 percent higher than issuer only; and 12-month share growth was 34 percent higher at issuer/acquirers compared to issuer only. Finally, asset growth was 29.2 percent higher at issuer/acquirer compared to issuer only.

With 7,150 members, 15 full-time employees, one branch and an asset class of $89 million, Conservation Employees' Credit Union has been serving its members in and around the Jefferson City, Missouri area since 1955. In an effort to remain competitive and relevant to its members, President and CEO Louie Delk explained that after some trepidation, the credit union recently joined the shared branching movement.

"We have been looking at shared branching for more than four years. Initially, we had two concerns: we did not have data processing support and our Board felt that our members would not respond positively to the shared branching transaction experience," said Delk. "After we changed to a new data processor, our Board revisited the idea. Missouri Credit Union Association (MCUA) staff helped to walk us through the process. Implementation was really inexpensive and pretty easy. Our membership has really embraced the new access to multiple brick-and-mortar locations."

Conservation Employees' Credit Union went live in April 2012 and Delk said transaction volume has "exceeded expectations." He was most surprised by the number of calls he received from

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The Cooperative Solution to Convenience: A Report on Shared Branching by Callahan & Associates

parents, who were in the process of sending their children off to college and in search of a new credit union due to the location. "Probably have had more than a dozen contacts where parents have said that they were going to help the kids find a new credit union, until they realized that their current accounts could be accessed through a shared branch—great for member retention," he said. "And, we are retaining those members, who are going to be getting car loans in just a few years."

As is the case with Conservation Employees' Credit Union, shared branching represents a cost-effective way to increase the physical footprint of a credit union without the investment in actual brick-and-mortar structures. And as Delk rightly pointed out, shared branching can contribute to membership and loan growth while keeping operational costs down, particularly those associated with running a branch. So while there may be expenses associated with offering shared branching to members, the potential to offset those costs in the long term is strong.

"Shared branching is an incredible way of extending additional convenience to your members, not to mention generating additional non-interest income. If you cannot provide that convenience, somebody else will," said Delk. "Participating credit unions see it as a way of extending convenience and service to members, and/or a way of generating additional non-interest income."

Misconception Two: Members Do Not Receive the Same Levels of Service at Shared Branching Locations

Branches serve a critical role as a conduit to building relationships with members. Shared branches stand-in for those credit unions limited in reach by geography. Some credit unions fear that the shared branching network does not provide the same level of service as the originating credit union. However, shared branching is unique compared to other financial institutions and speaks to the camaraderie within the credit union industry.

"By the mere existence of shared branching, credit unions demonstrate their cooperative nature and higher interest in promoting our movement for the better good of our members and communities," said Stan Moeckli, President and CEO of the St. Louis, Missouri-based Electro Savings Credit Union. "There isn't another industry that I can think of where you promote to your own members to go use the brick-and-mortar facility of another company that offers similar products and services to your own."

So while a member is being served by another credit union, the member receives the same attention and courtesy afforded to them in their home branch. This simpatico approach builds member trust and loyalty. To ensure consistency of service, shared branching locations are evaluated each year by a Secret Shopper Program, which evaluates participants on items such as signage, teller interaction, adherence to policies and procedures and branch appearance. From January to September 2012, evaluated locations scored an average 82 out of 100 points,

proving strong performance levels. “Within Missouri’s shared branching network, MCUA provides an excellent oversight with their Secret Shopper Program,” said Moeckli. “This ensures that members are not being sold on another credit union’s products while in a shared branching location.”

With 18,020 members, 61 employees, four branches and $146 million in assets, Electro Savings Credit Union joined the shared branching network in 2000. Moeckli explained that the approach was twofold. “We looked at the acquiring side and the issuer side. As an issuer, it is a way to offer our own members more branch locations without incurring the capital expense of building and staffing more locations,” he said. “As an acquirer, it is a source of non-interest income to offset the cost of our members using other credit unions’ shared branching locations, plus additional income if our locations could pull in more transactions than our own members used.”

There were issues to address such as training staff on transaction policies that adhere to the guidelines of a shared branching network, as well as ensuring that the data processing system is compatible. “The issuer and acquirer are a good match,” said Moeckli. “With our members going to other locations we had over capacity in our branches, but we need that extra capacity for the acquirer side, such as other credit union members coming to our branches.”

In 2011, Pennsylvania Credit Union Service Centers hosted a “Share It and Win” campaign to promote shared branching to members. Members were asked to enter respective entries as to how shared branching helped them at a designated website.

> ***“So far our members love it. In fact, we can now offer an alternative to members who are moving to keep their accounts open.”***
>
> Anthony DiGiovanni,
> President, CSD Credit Union

The third winner selected was referred to as “Denali,” a member of American Heritage Federal Credit Union. “When I moved from Philadelphia to Maryland, I did not want to move my account with me, thinking that in this computer age, there is no need for a brick-and-mortar branch. This was going just fine until I needed to deposit one check urgently,” Denali continued. “I called my credit union and they told me that I can do that at a shared branch—just a quarter mile away from where I was at that moment. From then on, I have my Philadelphia credit union everywhere around me—convenient, fast and really easy!”

The experiences recounted by Electro Savings Credit Union and American Heritage Federal Credit Union underscore that the shared branching model promotes excellent service offerings and supports relationship building regardless of member status (i.e., guest or traditional).

While the bottom line must be considered when undertaking a shared branching initiative, the main goal is retaining existing members and successfully serving visiting members. “On the acquiring side, we have many other credit union members complete our comment cards set out in our branches for our own members. They tell us that our staff has provided them the same level, even sometimes better of service that they receive at their own credit union,” said Moeckli. “On the issuer side, our own members tell us in our internal surveys that they appreciate the convenience of being able to access their accounts.”

Misconception Three: Members Will Be Stolen by Other Participating Credit Unions

While seemingly unfounded, it remains a leading shared branching misconception that members are poached by participating credit unions. Aside from the industry philosophy, which doesn’t foster competition from within, there are network policies and procedures in place preventing this theory of “stealing” from occurring.

“I have always felt that we are not in direct competition with other credit unions. It seems that some credit union presidents might be leery of sending their members to other credit unions, but we have not had a problem with it,” said Anthony DiGiovanni, President of the Kansas City, Missouri-based CSD Credit Union. “I feel that when your members go to other credit unions to do a transaction, all they want to do is get the transaction over with and get out of there. Also, the credit union employees just want to get the transaction completed and go on.”

With 3,700 members, $33 million in assets, seven full-time and two part-time employees, and one branch location, CSD Credit Union joined the shared branching network in February 2012. “So far our members love it. In fact, we can now offer an alternative to members who are moving to keep their accounts open,” said DiGiovanni. “Also, it gives us 26 branches in the Kansas City area without spending a ton of money. This is a very cost effective program for our credit union.”

Bonnie A. Kramer, Senior Vice President of Operations (FSCC) for CO-OP Shared Branching, explained that shared branching participants note that convenience is the key to delivering services and maintaining credit union membership. “Over the past 20 years, our largest credit unions continue to open branches to allow members of other credit unions to take

advantage of expanding their footprint in delivering service to members," said Kramer. "These same credit unions also send their members into branches of other credit unions. If there was a problem with credit unions stealing members, we would not be seeing this cooperation in the network."

% Using the Credit Union	User	Non-User
As their PFI	74%	51%
For Checking	80%	61%
For Debit/Check/ATM Card	74%	50%
For Online Account Access	50%	31%
For Bill Payment Services	21%	12%
For Mortgage/LOC	33%	19%

Referencing the above statistics, Kramer said, "The credit unions that use shared branching are finding that their members—going into branches of other credit unions—consider their credit union as their primary financial institution (PFI). There is not one credit union that can boast that they have over 7,200 locations available in 50 states for members to use and be convenient."

With 6,643 members, 11 employees, three branches and $26 million in assets, the Fort Wayne, Indiana-based Pinnacle Credit Union has realized only benefits from shared branching. "You will always have the potential to lose members to another organization, however being a part of shared branching gives your members more branches," said CEO Lisa Williams. "The people working at the shared branching facilities aren't the ones that will be trying to steal your members. Rather, these are individuals who have been trained to help your members as if they were their own," she continued. "I would have lost some of our members to other institutions just because they were moving away; now I am able to keep them."

Misconception Four: Only Members that Don't Offer Value Are Shared Branching Users

According to the consulting firm Experian, it costs six to seven times more to acquire a new member than to retain an existing one. Retaining five percent more of the "best" members can boost profits by as much as 100 percent. Therefore, it's worthwhile to provide required services such as convenience through shared branching that helps credit unions develop expanded relationships with existing members.

Despite the aforementioned logic, some credit unions believe that only members who have low checking and savings account balances use shared branching. For example, they have a limited relationship making only payday visits. "Shared branching is an incredible way of extending additional convenience to your members," said Conservation Employees' Credit Union's CEO Louis Delk. To this end, extending convenience to all members deepens and expands relationships over time, which could bring a payday-only member to become an auto-loan candidate.

While online banking and other automated services have lessened branch traffic, tellers remain the front line for high-dollar transactions. A recent Celent report found that 90 percent of teller transactions were check deposits.

"Members use shared branches to make deposits and usually large deposits," said Sarah Canepa Bang, President, FSCC, LLC, and Chief Strategy Officer, CO-OP Shared Branching. "They use shared branching to make large deposits because they want to do multiple transactions with that money. When you deposit a $10,000 check, you probably want to use some of it to pay down a loan, get some cash back or transfer funds to another account. Shared branching provides the needed services and options that can't be handled by a proprietary ATM."

In 2010, Raddon Financial Group (RFG), in association with CO-OP Shared Branching, published the study, "Shared Branching Probability Analysis." The report analyzed the shared branching activity of twenty-five credit unions during 2008 and 2009. The credit unions studied had average deposits of $614 million and an average loan portfolio of $518 million.

The most common type of transaction conducted was the "verify" transaction, which ensures the individual is part of the institution's shared branching network. The "verify" transactions account for 40.8 percent of all transactions. The report noted a verification percentage below 50 percent is an indication that individuals are conducting multiple transactions per visit. Deposits were the next most frequent type of transaction, accounting for 26.2 percent of all transactions. Each deposit had an average dollar amount of $1,226. Withdrawals (15.8 percent) and balance inquiries (11.3 percent) were the other common types of transactions conducted.

While the report found that shared branching users only make up 6.8 percent of all the households at the average credit union, they deliver 12.7 percent of the total profit. On average, the annual household profit for shared branching users was $90.25, compared to profit of only $7.07 on households that do not use shared branching, the report stated. After applying the direct costs associated with shared branching transactions, the average profit remained at $47.53.

"Banks and credit unions are losing roughly four percent in [branch] transactions each year," said Canepa Bang. "This is the exact reason credit unions should be using shared branching. Credit unions already have the branches operational and are paying tellers, so they might as well invite outside members to close the gap on the expense of operating."

Misconception Five: Branches Are a Dying Breed

While mobile banking, online banking and ATMs with enhanced capabilities have lessened brick-and-mortar foot traffic, branches are still important as they convey to members that their financial institution is stable, viable and focused on growth.

In 2011, Credit Union Times published an article entitled, "Branch-Building Conveys Stability Focused on Growth." Jim Haack, CEO of design-build firm Momentum, noted the importance of personal, not virtual, relationship building. "We see the branch component as the physical touch point of the strategy for building awareness that can be very difficult, if not impossible, to do online or through just a Web-based format," he said. "The future of the branch is healthy, and institutions looking for that kind of deeper market credibility and capability are going to need to provide multichannel access to meet members' expectations of being able to do business through the channel that suits them best at any given time."

Even if shared branching locations do not share a credit union's name or logo, they can be branded so members associate the two. "I have a great deal of confidence in our members that although they may physically frequent another location, they still remain our member. Shared branching just gives our member more branches," said Pinnacle Credit Union's CEO Lisa Williams. "Some misconceptions may exist just because now the member has several financial institution choices—there is more competition than ever before, even coming from the non-traditional institutions."

Across all asset groups, credit unions that increased their branch network by at least one branch had an asset growth rate two times greater than credit unions that did not increase network size.

Credit union branches and competing banks are taking a fresh approach to branch design and services in hopes of attracting members, who are expecting more from the experience. For example, some credit unions are creating a Starbucks-like atmosphere where members can receive real-time, in-person advice on mortgages, small business applications and investing, while using free Wi-Fi and accessing state-of-the-art technological components.

While it is assumed that branches are dinosaurs nearing extinction, Momentum, in association with The Financial Brand, published "Performance Analysis: Branch Network Expansion, a Five-Year Evaluation of the Link Between Branch Network Growth and Performance" that finds the opposite to be true. From 2007 to 2012, performance metrics were studied for credit unions that added branches against those that did not. For the former, asset growth, member growth, loan growth and ROA all increased.

Across all asset groups, credit unions that increased their branch network by at least one branch had an asset growth rate two times greater than credit unions that did not increase network size. Seventy percent of credit unions that increased their branch networks had positive increases in membership.

For those credit unions with assets greater than $1 billion that added at least one branch between 2007 and 2012, 55.26 percent had a return on assets (ROA) higher than the peer group that did not add one branch in 2007 versus 44.07 percent in 2012. The report also found that credit unions that increased branches increased loans originated per full-time employee (FTE) by 12.32 percent, whereas credit unions that did not increase their branch network had a decrease in loan origination per FTE of negative 15.22 percent.

With 22,000 members, 40 employees, two branches and $120 million in assets, the Hammond, Indiana-based REGIONAL Federal Credit Union has been active in shared branching since the early 1990s. President and CEO Jill Banning noted that without shared branching, the credit union would not have been recognized in recent years for its overarching service. "The most exciting experience for REGIONAL is winning the Best Business award two years in a row in a city in which we have no physical branch!" said Banning. "We introduced the community to REGIONAL using local shared branches as our delivery system. Our penetration in the community dramatically increased and we were recognized by the Chamber of Commerce."

Both the Momentum report, which speaks to the financial benefits of branching, and REGIONAL Federal Credit Union's award-winning service, are proof-positive examples that branches pay dividends and enhance member relations.

Misconception Six: A Shared Branching Transaction Is More Expensive Than a Proprietary Transaction

Credit unions new to the shared branching concept are often faced with concerns regarding the cost per transaction. While the average proprietary teller visit is $4, the average guest member visit during a shared branching session normally consists of three transactions: authentication of the member, which includes all the account information, a deposit/payment and withdrawal. The average cost for this tiered transaction is estimated at $3.93.

From the acquirer perspective, CO-OP Shared Branching's Sarah Canepa Bang explained that the average cost per transaction at a branch is currently 87 cents, which covers employee overhead (i.e., salary and benefits). She cited statistics provided by Financial Management Solutions, Inc., which takes a monthly pulse of transactions at banks and credit unions. "The top 10 performers on their list are all credit unions with 71 cents per transaction," she said.

The rate at which an acquirer per transaction will earn depends on the credit union's network, she noted. "But roughly acquirer credit unions earn $1.00 to $1.20 per transaction. So if the average cost of a transaction at a branch is 87 cents, then doing a shared branch transaction becomes a profitable venture. Shared branching is maximizing excess capacity in brick and mortar and human resources. There are some organizations that will find reasons not to acquire shared branching transactions, such as required software, but from a transaction perspective, the money is there to be made."

"Being a part of the shared branching movement has always been beneficial to us. We have members located throughout the states; so this movement has really let our members keep their accounts even after moving away from our area"

Lisa Williams,
CEO, Pinnacle Credit Union

Misconception Seven: Existing Credit Union Branch Network Is Convenient and Sufficient

While some credit unions have multiple branch locations within a given region, the way members define "convenient" has drastically changed over the last decade. Aside from travel, emergencies and moving, this trend is especially true for the Gen Y demographic, whose members are accustomed to speed and ease-of-use delivery channels and expect the same from their financial institution.

Credit unions of all sizes are taking a serious look at member age and convenience issues in hopes of closing the gap. Georgia's Own Credit Union, with 177,485 members and $1.7 billion in assets, has a large proprietary branch network of 25 locations throughout the state of Georgia. Despite this uncharacteristically large footprint, the credit union supports shared branching.

"This group [Gen Y] of people needs a wide variety of channels. They want it all. In our experience, we find that if we put it out there, they will use it. This includes branches among other things," says Vice President of Branch Services, Kathy Igou. "We also hoped this would help us see an increase in credit union membership statewide. As far as we were concerned, it didn't matter what credit union the member belonged to. As long as it wasn't Bank of America, we were happy."

For those members who might be traveling or on temporary work assignments, the convenience of a shared branching network is essential. "We have had members who have been out of town and lost their debit card and we sent them to a shared branch and they were able to get cash so their vacation wasn't ruined," said CSD Credit Union's President Anthony DiGiovanni. "Also, instead of wiring money and incurring a $25 fee to the member, we have advised them to go to a shared branch to get the cash."

An ancillary misconception is that a credit union membership is "all local" and therefore doesn't require a large branch network; however, members routinely leave the area on vacation/business travel or for personal emergencies. And then there is bad weather and natural disasters such as the recent Super Storm Sandy that left the Jersey City, New Jersey-based Liberty Savings Federal Credit Union without power for one week, along with countless other regionally impacted credit unions.

The Credit Union National Association reported that since Bank Transfer Day (2011) approximately 1.9 million consumers switched from banks to credit unions. While this is a positive indicator, credit unions must ensure that existing members' needs are met. Additionally, migrating banking customers accustomed to the benefits of a large branch network come with high expectations. It is for this reason, and the aforementioned, that a "local" mindset will not suffice in the new competitive financial institution landscape.

"Being a part of the shared branching movement has always been beneficial to us. We have members located throughout the states; so this movement has really let our members keep their accounts even after moving away from our area," said Pinnacle CEO's Lisa Williams. "We have several members in Tennessee that have always called to get a check sent to them; however, now we tell them which service center is closest to them so they may receive their funds immediately. The Human Resources person of the SEG in Tennessee even called us and said that if we gave her the information, she would put it in the employees' pay stub envelopes so everyone would be aware of the location."

CO-OP FINANCIAL SERVICES Be There Be More

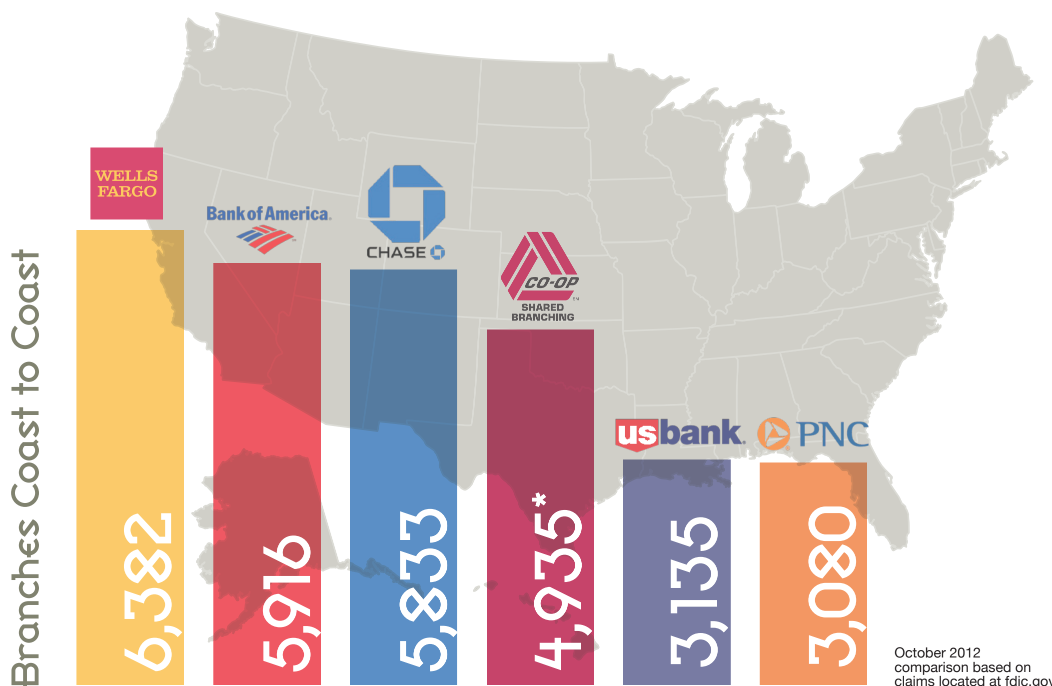
Misconceptions Shattered: CO-OP Shared Branching, a Success Story

Shared branching participants have opportunities to expand relationships with members through their own channels, because the convenience shared branching offers prompts members to use the credit union for multiple needs.

The shared branching network enables credit unions to provide respective members with thousands of convenient locations to perform transactions, just as if they were at their home credit union. To date, branch locations totaled nearly 5,000, making CO-OP Shared Branching the fourth-largest branch network nationwide, behind three national banks.

The inherent benefits of shared branching are overarching. Most importantly, it brings guest members to disparate branch locations where they typically conduct multiple transactions. Participating credit unions exponentially contribute to the expansion of their respective networks, increasing their competitive advantage against regional and national banks, many of which have frustrated customers looking for a new primary financial institution.

By tapping into the shared branching network operating in 50 states and offering more than 7,200 locations (including kiosks), a credit union can expand convenience, enhance service offerings and deepen member relationships by joining the expansive CO-OP Shared Branching network.



*An additional 2,200 kiosks are available within select 7-Eleven® stores.

To learn more about how CO-OP Shared Branching can benefit your credit union, visit www.co-opfs.org, email sales@co-opfs.org or call 800.782.9042, option 2.