



*In this issue*

Technology has changed the role of the branch — but it's still the mainstay of member satisfaction

# Market smarts

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## Branching Strategy: New tricks for bricks

IT'S OFFICIAL! The branch is back. In the past decade, electronic channels, especially Internet banking, garnered all the press and preoccupied financial services executives. The branch as a delivery channel was rumoured to be dead. But with the advent of a new series of emerging trends, the branch is being resurrected.

This issue of *Market Smarts* examines these trends, including new branch location and evaluation tools, retail-style concepts in interior design, in-store branches and shared branching initiatives. We'll also take a look at some alternative branch strategies, including cheque cashing branches. □

## The Importance of the Branch

Several studies conclude that the branch remains one of the most important delivery channels for financial institutions. But the role of the branch has certainly changed: the main focus is no longer on transactions but on sales and information. This change is leading financial institutions to redesign the look and feel of their physical facilities. Let's look at key reasons why the branch remains so important.

### Financial Institution Selection

A convenient branch location is still a crucial factor in choosing a financial institution for people in British Columbia, according to the 2003 Credit Union Motivators and Barriers Research Study. If the institution isn't close to home or work, it is unlikely to make it onto the consumer's short-list.

### 'Just In Case'

The study also revealed that 76 percent of British Columbians agree with the statement "I still want my branch nearby, even though I rarely go in." In fact, more people agreed with this statement than with any of 20 others describing their relationship with their financial institution. It's a security blanket: consumers want to know that the branch is nearby if they need, however rarely, to speak to someone. Focus groups, with members and non-members, confirmed that people turn to their branch in a financial emergency or when errors have been made.

### Concrete Matters

Focus groups also revealed that the physical evidence of a branch provides psychological reassurance to consumers that their money is secure and that their financial institution is "real". The focus groups provoked disparaging comments

about virtual/branchless banks: "I want to be able to see that people work there, because it's my money" and "these virtual banks, I don't know where or what they are. I need something real."

### The Branch is the First Choice When Researching a New Financial Institution

When consumers are looking for a new financial institution or product, often the first thing they do is go into a branch to get a feel for the place and its amenities, collect brochures or ask questions. Their first impressions often determine their ultimate choice. If a staff member talks to these financial shoppers and answers their questions, the impression is good. Ignored, or forced to make an appointment, the potential customer has a negative reaction. The Motivators and Barriers Study revealed that 66 percent of British Columbians strongly agree with the statement "If I go into a new financial institution, I want to be able to have a meeting with someone right away, not be told to come back for an appointment."

### The Branch is the First Choice When Purchasing a New Product

When shopping for a new financial product or service, Canadians limit their research to one channel: the branch, the call centre or the web (Forrester Research, March 2003). Once decided, most make their final purchase with human help, regardless of where they did their initial investigation. Seventy percent of Canadian financial consumers made their most recent purchase at a branch; 23 percent made their purchase over the phone with a live salesperson, and fewer than seven percent completed their purchase over the Web.

## Channel Surfing

For routine transactions, financial institutions have successfully transferred consumers' reliance on the branch to ATMs, the Internet and telephone banking. But people still prefer to use a branch for garnering information on products and services, for conducting more complex transactions, and, especially, for making investments or requesting a loan.

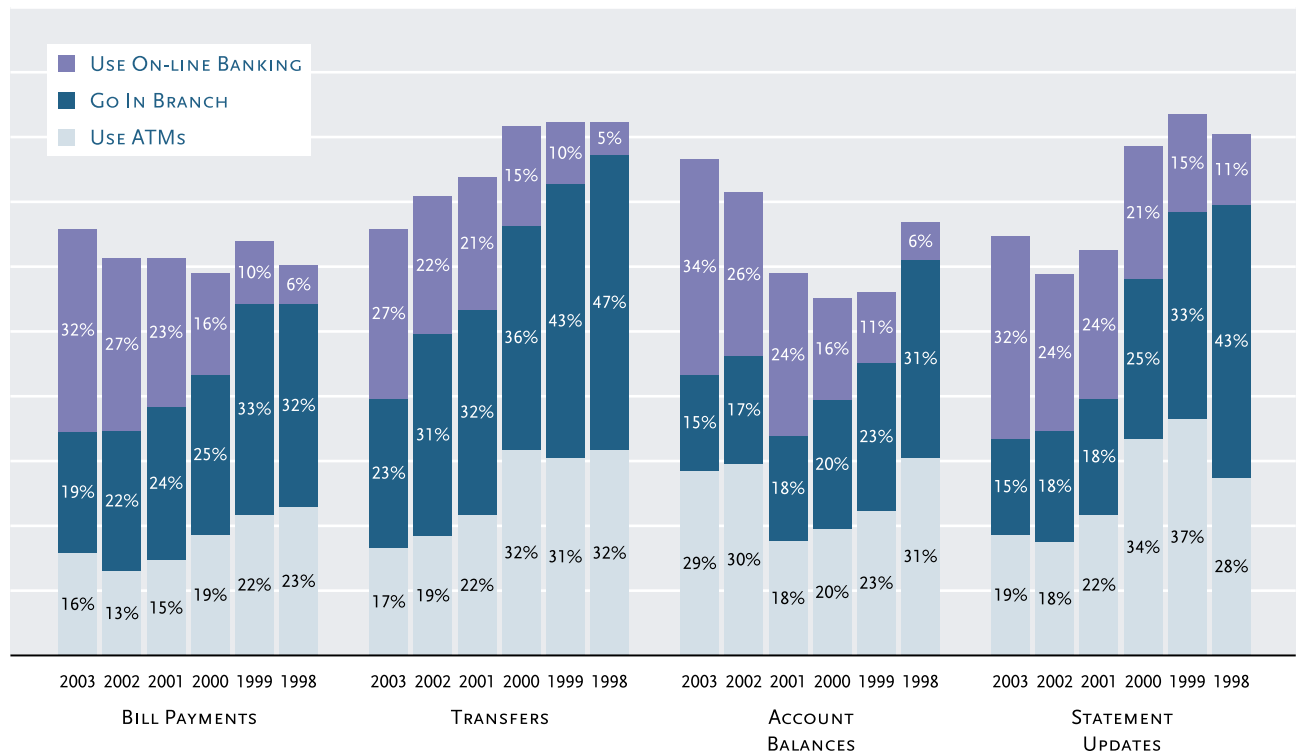
CUCBC's 2003 Products and Services Study revealed how important the branch is to most British Columbians' banking behaviour. When asked, almost 70 percent of

financial customers had seen a teller in the past month. People who favour branches over other channels of delivery include: primary credit union members, older people, those with less education and lower incomes. The branch remains a critical tool in the sale of credit products. The majority still prefer to visit a branch when applying for or renewing residential mortgages (59 percent), lines of credit (74 percent) and personal loans (62 percent). However, this predilection is slowly declining as mortgage brokers and mobile mortgage representatives gain favour. Meanwhile, electronic channels have emerged as the clear choice for

routine banking transactions. Figure 1 shows that, in 1998, the majority of consumers surveyed paid bills in the branch, but by 2003, most had made the transition to electronic channels. Similar behavioural changes have occurred for transfers, account balance inquiries, statement updates and other routine transactions.

Small businesses lag behind the general population in the adoption of electronic channels. Many still use the branch for routine transactions.

Figure 1 Historical Channel Usage



SOURCE: CUCBC 2003 Products and Services Study

Figure 2 Branch Most Popular Among Small Business Owners  
Percentage of customers using the branch for transactions

TRANSACTION	PERSONAL	SMALL BUSINESS
Bill Payments	20%	24%
Transfers	23%	45%
Account Inquiries	15%	30%
Statement Updates	15%	23%

SOURCE: CUCBC 2003 Products and Services Study

Figure 3 2003 Mortgage Delivery Channel Usage

Branch	59%
Broker	17%
Phone	10%
Mobile Representative	10%
PC / Internet	1%
Mail	1%

SOURCE: CUCBC 2003 Products and Services Study

## The Branch Network in BC

Statistics from the Canadian Payments Association show that there are currently 1,187 full service financial institution branches in BC: 844 are operated by banks, 340 by credit unions, and three by trust and loan companies. An additional 35 branches are operated by intermediaries offering “specialized services.” The latter are predominantly owned by online entities such as Ubiquity Financial and Citizens Bank, but also include wholesale, commercial, foreign, non-depository and non-lending institutions.

In BC, TD Canada Trust has the most branches with 187. Close behind are the Royal Bank with 161 and CIBC with 145 branches. In contrast, Coast Capital Savings, the credit union with the greatest number of branches, has only 49. VanCity Savings has 40 branches, and Interior Savings has 22. Forty-two of the 61 credit unions in BC have three or fewer branches.

There is a distinct difference in the geographical concentration of bank and credit union branches in the province. Figure 5 shows that 18 percent of all branches operated by BC credit unions are located in rural areas with a maximum population of 5,000, but only seven percent

of BC bank branches serve these small communities. Instead, 57 percent of BC’s bank branches are concentrated in Greater Vancouver and Victoria, while only 48 percent of all credit union branches operate in these areas. In fact, the banks’ branch concentration closely mirrors the BC population: 26 percent of total branches serve the 25 percent living in rural or small town areas. This is not true for credit unions: 37 percent of total branches serve this same 25 percent of the population.

Figure 4 2003 BC Bank Branch Count

<b>TD Canada Trust</b>	187
<b>Royal Bank</b>	161
<b>CIBC</b>	145
<b>Scotiabank</b>	143
<b>Bank of Montreal</b>	142
<b>HSBC</b>	50
<b>Canadian Western Bank</b>	10
<b>Laurentian Bank</b>	9

SOURCE: 2003 Financial Institution File, CPA

Figure 5 Concentration of BC Bank and Credit Union Branches

GEOGRAPHIC AREA*	TOTAL BRANCHES	CREDIT UNION		BANK		BC POPULATION %
		NOS	%	NOS	%	
<b>Rural</b>	123	61	18%	62	7%	15%
<b>Small Urban</b>	231	64	19%	167	19%	11%
<b>Large Urban</b>	177	51	15%	126	15%	12%
<b>Metropolitan</b>	656	164	48%	489	57%	62%
<b>Total</b>	1,187**	340		844		

\* **Geographic Area** Rural – 5K Population.  
 Small Urban – 5k to 50k.  
 Large Urban – 50k plus.  
 Metropolitan – Greater Vancouver and Greater Victoria.

\*\* **Total Branches** 1187 = 340 CU, 844 Bank and 3 Other.

SOURCE: CUCBC, based on branch stats available from CPA

## Branch Network Consolidation Among the Big Banks

The 'Big Five' banks in Canada have collectively reduced the size of their branch networks by 17 percent or nearly 1,100 locations since 1998. All the banks are closing branches, with the number of shut doors ranging from 97 by the Bank of Montreal to 305 for the Royal Bank. As shown in Figure 6, the Bank of Nova Scotia has closed the largest proportion of its branches—nearly 23 percent of the 1,274 branches it had in 1998. Many of these branch closures represent an exit from rural areas as the banks follow population trends in reorganizing their networks. For example, bank branches are being opened in urban areas popular among the 25-55 year-old age group, and in areas like the Okanagan, where wealthy retirees congregate. Consequently, the closure rate is approximately five percent higher than it appears in Figure 6.

The dismantling of bank branches has happened largely outside the glare of the media. To defuse an angry consumer backlash, several banks have sold the vacated branch

assets to other institutions. In 2000, 11 BC credit unions purchased and continue to operate 13 branches closed by the Bank of Montreal.

If recent news from CIBC is any indication, branch closures by the major banks are likely to continue. As part of its branching strategy, which includes a limited number of branch openings led by a flagship location in west Toronto, CIBC plans to shutter 150 more locations over the next three years, starting with 58 in 2003. In contrast, the BC credit union branch network tally has held relatively steady (currently at 338 branches), and several credit unions intend to expand their branch network in 2004.

Figure 6 'Big Five' Branch Network Reductions

INSTITUTION	BRANCH LOCATIONS		DECLINE	
	1998	2002	BRANCHES	%
Bank of Montreal	1,064	967	97	9.1%
Royal Bank	1,422	1,117	305	21.4%
CIBC	1,359	1,139	220	16.2%
TD Bank / TD Canada Trust*	1,356	1,178	178	13.1%
Scotiabank	1,274	984	290	22.8%
<b>Total</b>	<b>6,475</b>	<b>5,385</b>	<b>1,090</b>	<b>16.8%</b>

\* 1998 figure includes combined TD Bank and Canada Trust locations

SOURCE: 'Banks have pared 1,000 branches', National Post, March 4, 2003

### MOBILE BRANCHES

It used to be mobile libraries. Now mobile financial branches can be driven by staff to various locations and events. A flexible complement to traditional branch networks, these units, typically mounted in vans or small trucks, offer a range of simple services: opening accounts, taking deposits and loan applications, and selling travelers' cheques. Many units include ATMs, providing 24-hour

access to banking services. When the event is over or a group has dispersed, the mobile branch can be sent to a new place.

In the US, where there are many closed bond credit unions, it is common to see a mobile unit parked outside the workplace of an affiliated organization. Employers can even request this service. Mobile banking is particularly attractive in places where

employees are located on one site, without easy access to local shopping centres.

In Canada, mobile banking is often mentioned as a low cost remedy, especially in rural areas, to the spate of recent branch closures by the chartered banks. However, none of the banks have yet introduced this service.

## Market Expansion and Branch Location Decisions

Many credit unions are pursuing new markets and opening new branches as a way to grow. Others are reviewing and realigning existing branch locations as the characteristics and demographics of their existing market change. Both of these strategies require a standard evaluation process to ensure success. The following seven steps, developed by the consulting firm Branch Decisions, can help those entering new markets and those re-evaluating existing branch locations.

### Step One: Market Analysis

A market analysis of new or existing markets requires data. Much of the necessary information is available from government sources, including municipalities, Statistics Canada, and BC Stats. Additional information can be purchased from PMB, MapInfo, Generation 5 and other private research suppliers. These companies may collect primary information through consumer surveys and tracking or simply combine available data to create a different perspective on geographic areas or markets.

A thorough market analysis should include:

#### *Demographics*

Quantify the number of potential customers in the area, their location and characteristics (age, income, education and occupation).

#### *Competition*

Find the location, size, market share and marketing advantages of competitors in the area. For example, do the competitors have high-profile storefronts, drive-thru ATMs or extended hours?

#### *Market Demand for Financial Services*

Researching household financial assets, channel preferences and product usage can help determine if there is sufficient demand for another financial supplier in that particular market.

#### *Current and Future Market Characteristics*

What does the future hold for the area? Find out about plans for commercial and retail development and residential housing. Are there any pending changes in traffic patterns or transportation? Analyze unemployment and employment figures—are people in the area dependent on one or many employers? Is there anything, specific to that area, that would affect the economic well-being of the people living there?

### Step Two: Member Analysis

Following the market analysis, study your credit union's existing members. Some may already live or work in the new area, and others may have transferred all or most of their business to competitors in that location. MCIF

#### MOBILE MORTGAGE REPRESENTATIVES

First introduced by the Royal Bank, mobile mortgage representatives are the means by which a growing number of financial institutions are seeking to capture a greater share of the residential mortgage market. These specialists, equipped with lap top computers and wireless communications, typically cover a designated geographic area and visit customers at home or the workplace, often outside of branch hours.

Mobile mortgage representative offer convenience to time-strapped consumers. As an alternative delivery channel, mobile representatives also offer the financial

institution several advantages: lower mortgage origination costs, and a wider geographical area than the one served by its branch network. With Mobile mortgage services, a bank or credit union can develop a customer base in the new market before opening a full service branch. In addition to the Royal Bank, which has an extensive mobile sales force, TD Canada Trust and Vancouver City Savings Credit Union are also operating mobile mortgage specialist teams in BC. Consumers obviously appreciate the convenience: In 2002, six percent of those renewing or applying for a mortgage in BC obtained it through mobile representatives; a

year later ten percent applied for or renewed their mortgages this way.

The recent surge in popularity of mortgage brokers, who operate outside a bank-style branch network, is likely to help sever the connection between "mortgage" and "branch" in consumers' minds. In 2000, only one percent of mortgage consumers obtained their mortgage through a broker. By 2002, 14 percent reported using a broker, and this year it was 17 percent. The growth in this segment of the market is encouraging many institutions, including several credit unions, to pursue mortgage broker business.

systems, or other data warehouses, provide a wealth of information on members' balances, product use, channel preferences and demographics. Determining where profitable members live or work in relation to existing and potential branches will help make the branching decision.

#### **Step Three: Profitability Modeling and Setting Objectives**

A financial model that crunches the numbers under various scenarios and includes an array of profit objectives is necessary for making branching decisions. The model should take into consideration the following objectives:

- Customer penetration and branch funds under administration
- Cumulative cash flow, net income and projected operating efficiency
- Financial break-even
- Net Present Value, Internal Rate of Return, Return On Average Assets and the impact on earnings
- Projected payback time-period and IRR

Branch development and marketing costs, estimates of incremental business, member penetration rates and branch efficiency targets should also be included in the model.

#### **Step Four: Location Analysis**

As many Canadians still choose their financial institution based on a branch's location, picking the right place is critical to a credit union's long term profitability. According to The Goldfarb Report, a convenient location remains one of the top ten reasons for consumers' choice of a financial institution. Forrester Research found that most consumers still select and open a chequing account based on their proximity to a branch.

##### *Assess Site Opportunities*

Assess the location's proximity to areas with high residential density, new housing developments or places of employment. Are there clusters of high-value customers growing quickly, lacking a convenient branch, or served by relatively few competitors?

##### *Identify Site Characteristics*

Don't just rely on numbers and research. Visit the site of the potential branch to personally assess competitors, traffic volumes, and neighbourhood characteristics. Consider the logistical issues: parking, visibility of signs, ease of entering and exiting, proximity to shopping, safety and security.

##### *Develop Recommendations*

Compare possible locations by scoring and ranking each site. Include the following key characteristics: market size, market growth, competitive intensity, financial product demand, presence of target-market segments and important site characteristics.

#### **Step Five: Market Development Plan**

Once a site (or sites) has been chosen, create a market development plan. In the plan, detail how the credit union will meet the objectives set in Step Three; catalog ideas for attracting new members and increasing business with existing members who already live in the new area; identify ways of seeking support from the local community including potential or signed partnership agreements and opportunities for hiring local staff.

The plan should include opening events, special rates and offers. Describe the different strategies needed to attract various segments of the market, such as small business owners. Include a promotion plan for specialized products and services that may be attractive to the new market.

#### **Step Six: Final Decision**

Step Six is the final decision. What markets should the credit union enter? Where should the branches be located? How will the first two decisions affect existing markets and branches? If opening a new branch will cannibalize an older one, you may have to reassess your entire branching strategy. But once the final decision is made, detailed financial plans must be developed. Capital requirements and an operating budget are part of the plan that is presented to the Board for approval.

#### **Step Seven: Performance Monitoring and Evaluation**

After the branch is opened, regularly monitor the operation's progress toward financial targets (set in Step Three) and marketing goals (new assets, new members, product usage, etc.).

Further information regarding the services of branch decisions is available at the informative website [www.branchdecisions.com](http://www.branchdecisions.com).

## In-Store Branch Locations

In-store banking was introduced to Canada in the late 1990s after an undignified scramble by the banks to woo major retailers. For the banks, these arrangements offered a far cheaper way to enter new areas than building their own branches. The hope was that retailers would deliver box loads of new customers every week, and those customers would appreciate the convenience of a branch open seven days a week. Initial results from similar ventures in the US promised not only new customers and new accounts, but higher product sales. The US banks were reporting that product sales per customer were significantly higher at their in-store branches than at their traditional branches. Four years later the results of these strategies in Canada are mixed.

### Toronto Dominion Bank

Enthusiasm for the in-store model has soured at the Toronto Dominion Bank. In 1998, when it was a relatively small player in the retail banking market, TD struck a partnership with Wal-Mart Canada Corp. The Bank established 118 mini-branches in Wal-Mart locations, each offering ATMs and personal assistance but no teller service. After merging with Canada Trust in 2000, TD became one of the major retail players and no longer had a need for the Wal-Mart branches. Over 100 of the Wal-Mart locations were less than 3 kilometers away from other TD branches, and the lack of teller services was a drawback to prospective customers. Although customers used the mini-branch ATMs, they did not stop by to discuss a new mortgage. Yes, the branches were convenient but they failed to attract new business for loans, mortgages or credit cards.

In April, TD Canada Trust, citing disappointing results, announced that it would close all 118 outlets as their leases expire with Wal-Mart over the next three years. The Bank also permanently shelved plans to offer financial services in over 100 Wal-Mart stores in the US.

### CIBC

Similar problems prompted CIBC to abandon its Amicus Bank branches at two US supermarket chains last year. Also on the chopping block were CIBC's "no-fee BizSmart" kiosks for small business banking in Staples and Business Depot Stores across Canada. President's Choice Financial (PCF), on the other hand, has been given a reprieve. PCF, the Bank's joint venture with Loblaws, has attracted 1.3 million customers to the 217 grocery store pavilions across Canada. The unstaffed booths offer loans, investments, and free chequing accounts through the phone or the Internet. The venture lost \$64 million in 2002, but started earning a profit in August, 2003. A \$14 million charge for impaired

loans, representing about 0.4% of PCF's total loan portfolio, was one of the reasons for last year's loss. The company blamed the structure of its loan portfolio, which contained a higher than average percentage of consumer loans (24% of total loans) relative to mortgages.

It is still uncertain if CIBC will continue the partnership with Loblaws. The bank is trying to cut the cost of its operations by several hundred million dollars, and many analysts believe that Amicus, the electronic banking unit that operates PCF, could still be sold to Loblaws.

### Bank of Montreal

The Bank of Montreal experience has been far closer to the one initially promised by the US banks. It has 98 Canadian in-store branches and plans to open another 80 stores over the next five years. BMO has not limited itself to one partner; instead, it has branches in Safeway, A&P, and other retail stores. Most of the new stores will be opened in Sobeys grocery stores in Ontario and Atlantic Canada, or IGA Extra stores in Quebec. In British Columbia, all 28 of BMO store branches are in Safeway.



The Bank claims that the in-store locations sell more mortgages and lending products, as a percentage of sales, than BMO's traditional branches. The in-store branches, open for extended hours six or seven days a week, are manned by three or four employees who focus on recruiting new customers and selling products. A customer can open a chequing account, RRSP or RESP, obtain a loan and credit card, purchase CSBs and mutual funds. If the request is more complex, the customer is directed to the nearest traditional branch. Teller service is available through an on-site ATM, and private office space is available to assure confidentiality.

## Branch Design

Financial branches have typically been designed to process customers, getting them in and out of the place as quickly as possible. Now, banks and credit unions have taken an 180-degree turn; they are adopting the designs and tricks of retailers. Retailers design their stores to encourage cross-shopping, customer satisfaction, and efficiency. They use strong visual merchandising and a well-planned layout to encourage customers to stay in the store. Phone and computer purchases are not part of the design. Retailers consider the branch an extension and reflection of their brand—something financial institutions are just starting to understand.

These financial institutions are ahead of the pack:

### Washington Mutual (WaMu)

Seattle based Washington Mutual (WaMu) is gaining widespread publicity for thinking beyond the notion of a traditional branch and for creating retail banking 'stores.'

A WaMu retail bank store, referred to as 'Occasio' (Latin for 'favourable opportunity') by the company, is more reminiscent of a Starbucks or Indigo store than a customary bank branch. Occasio branches have a circular design, brightly-coloured paint and signs, comfortable chairs and contemporary music. At the door, a khaki-clad concierge

greet customers, directing them either to a sales or service representative or to the 'retail shop' where customers can buy everything from piggy banks to financial software. For routine transactions, the WaMu representative and customer stand next to a 'teller tower,' a square, waist-high counter that incorporates a computer monitor, keyboard, cash counter and dispenser. With cash counters in the towers, the transaction is quickly processed, leaving more time for the representative to talk to the client about new products. The number of teller towers varies from four to ten, depending on the traffic in a branch. Sales associates escort customers, not to the traditional office or desk, but to small stations along the store's wall. Using either a tower or table, the two review the customer's account on a computer monitor. Internet stations are dotted throughout the stores.

WaMu opened its first Occasio in 2001. Now there are 450 of these stores spanning the US, and another 70 are expected by the end of the year. Washington Mutual launched Occasio when most of its competitors were determined to drive customers out of the branches to electronic alternatives. "We're using technology to enhance the customer's experience, not to replace it," says Karen Curtin, Washington Mutual's senior vice-president in charge of planning and franchise development.

**Creating a branch that members find stimulating, comfortable, and appealing starts with proper planning. Here's a smattering of things to think about in designing a branch.**

**Determine the Physical Look.** Architectural style creates a powerful, if sometimes unconscious, impression of the entire organization to visitors. Do you want your branch to have a heritage, modern or Tudor style? Consider which parts of a design should permeate the entire branch network, and which parts should be customized to a particular region or neighbourhood.

**Incorporate Flexibility.** The nature of your business is evolving. The design should have the flexibility to change as your business changes.

**Branding.** Consider how and where your organization's logo and colours can be reflected. For many customers, the branch represents a significant part of the credit union's identity.

**Marketing and Merchandising.** The branch designed as a transaction centre is passé. Well-designed branch interiors will attract and intrigue consumers. Good merchandising will inspire purchases.

**Use Technology to Intensify the Branch Experience.** Internet stations, televisions, market updates, kiosks, and even coin-counting machines can add an extra dimension to the member's branch experience.

**Create an atmosphere.** While the latest technology can be an exciting way to differentiate a branch, planners shouldn't overlook less flashy features like a children's play spot or a sitting area in which members are comfortable reading a newspaper.

### Prospera Credit Union

Following the merger between Fraser Valley and Edelweiss Credit Unions, the newly formed Prospera Credit Union needed to create its own brand and update its branch network. In considering designs for its logo, Prospera executives paid careful attention to the effect the logo would make on exterior signs. They wanted a logo that made a strong statement, had distinct colours and was easily distinguished from the competition.



In designing its branch interiors, Prospera wanted its members to feel as if they had been invited into a home, not an institution. Starting with the new Okanagan branches, Prospera painted the walls in warm greys and yellows, and installed fireplaces, comfortable seating areas, a television and water falls. Surprisingly, Prospera managers says this new look is actually cheaper to produce than the traditional one that used costly wood finishes. Not only is the branch easy on the eye, it's practical: all the counters are modular and can be easily changed into different configurations.



### Vancouver City Savings Credit Union

Two years ago VanCity dropped a standard branch design. Instead, it is fashioning each branch to suit the individual community. For instance, its newest branch on Vancouver's North Shore reflects the history and natural beauty of Lynn Creek, with a rock wall, trees and a 23-foot-high totem pole atop a recycled lumber floor. In contrast the credit union's branch on Victoria's Douglas Street, which opened in September, features a half-timbered Tudor-look and a cedar shake mansard roof. Before redesigning the branches, VanCity holds focus groups with members.

### First Calgary Savings

You're enjoying a coffee and the warmth of the fireplace while you pay a bill online. Meanwhile, your kids are keeping busy with Nintendo. Think you're at home? Try First Calgary Savings' flagship MacLeod Trail branch. The branch also has plasma screens rotating marketing messages and greeters to direct members. First Calgary has successfully combined creature comforts with the latest technology and high-touch service to create a powerful branch experience for its membership. Many of the MacLeod Trail branch's leading edge features are also present at other First Calgary sites.

### Metro Credit Union

Among credit unions, Metro Credit Union was an early leader in experimental branch design when it opened its downtown Toronto branch in December 2000. The branch boasts television monitors, a member education area and an adjoining cafe. Metro's marketing approach is educational, and the design reflects this: lunch-time financial seminars are held regularly, and the credit union has formed a Women's Biz Coffee Club for female entrepreneurs. The business owners meet in the credit union's comfortable setting to share experiences and challenges.

## Retail Money Stores

Cheque-cashing and payday advance stores have popped up across Canada. In BC, MoneyMart is the market leader in this sector. Growth in this emerging industry has been so explosive that the Royal Bank, and maybe other banks, are flirting with the same idea. The Royal sees it as an alternative to the complete closure of full-service branches in areas no longer considered profitable.

The Public Interest Advocacy Centre, an Ottawa based consumer group, studied alternative banking services from the customer's point of view. In 2002, the Centre reported that users feel far more comfortable in the retail money stores than in banks. A random survey of 4,200 Canadian households showed that five percent had used alternative banking services in the last three years. Extrapolate those figures to all households and more than one million Canadians use alternative services. Payday loans are one of the big attractions of the stores: short-term loans, in the \$100 to \$200 range, are granted in return for a post-dated

cheque or delayed automatic debit. The fee is a percentage of the loan. It turns out that the people using money stores and payday loans are not that different from the average Canadian in age, gender or income. Only 15 percent would fall under Statistics Canada's definition of low income and only four percent were under the age of 21. In fact, most of the alternative banking customers would not be defined as disadvantaged. They have jobs, but they are less likely to be professionals or university educated.

So why are people using the services of a retail money store rather than a bank or credit union? Nine percent admitted to a poor credit rating, but the main reason given for using alternative services was simply that money was tight. For cheque cashing many cited the convenience of receiving instant cash for their cheque rather than enduring a four-day waiting period at their bank. Others liked the extended hours, the friendly staff and welcoming atmosphere.

Figure 7 Users of Retail Money Stores

GENDER	%
Males	50
Female	50

AGE	%
15 – 20 years	4
20 – 24 years	15
25 – 29 years	15
30 – 34 years	13
35 – 44 years	26
45 – 54 years	17
55 years or more	9
Average age	38

OCCUPATIONAL STATUS	%
Skilled labour	37
Unskilled labour	25
Self-employed / manager	16
Sales or clerical	6
Professional	4
Other	12

HOUSEHOLD INCOME	%
Under \$20,000	14
\$20,000 to \$39,000	30
\$40,000 to \$59,000	18
\$60,000 to \$79,000	10
\$80,000 to \$99,000	4
\$100,000 and over	6
Refused	18

HOME TENURE	%
Rent	41
Own	59
Average household income	\$51,400

EMPLOYMENT STATUS	%
Working	70
Not Employed	10
Student	8
Retired	7
Homemaker	5

SOURCE: Public Interest Advocacy Centre

### Cash & Save

In October 2002, Royal Bank of Canada quietly opened its own retail money store, Cash & Save, in Toronto's working-class Parkdale neighbourhood. The branch does not offer any traditional banking products; customers are limited to cashing cheques, buying money orders, paying bills and sending wire transfers. Rates are usually significantly lower than at other retail money stores, but payday loans are not offered. Royal Bank is testing this venture to see if it would work in other areas.

The roots of Cash & Save can be traced back to 1997, when the Royal Bank closed its full service branch in Parkdale as part of a general restructuring of its branch network. The Bank, in partnership with a United Way agency, placed a community banker in the neighbourhood to serve residents.

Research and experience determined that Parkdale residents did not need a full service branch, but they did need basic banking services like cheque cashing, bill paying and money orders—a perfect fit for the Cash & Save idea.

Because Royal Bank partnered with the community from Cash & Save's inception, the new venture has received strong community support. Services are provided at a fraction of the cost charged by independent cheque cashing companies. For example, Cash & Save charges 1.25 percent for cheque cashing with no additional fees, and processes government cheques for free. Competitors typically charge 2.99 percent plus a \$3 per item fee. In part, the Royal Bank has been able to establish such aggressive pricing because the Cash & Save outlet is small and lightly staffed, incurring minimal overhead costs.

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TAKING A RETAIL  
APPROACH ALL  
THE WAY TO  
THE BANK

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In traditional retailing, merchandising is a major part of the sales process. For example, signs inside any Gap store are consistent, carefully considered, and a complement of the décor. Huge window posters act as advertising, taking up much of the window space. In banking, many issues compete for the consumer's attention, so it is not uncommon to see lots of small posters, crowded with type, in windows, on counters and tables. Often, many of the signs are outdated, intensifying the sensation of dusty clutter.

In the Fall of last year, Scotiabank adopted the Gap's concept of simple, bold messages to create a strong visual impact. A split messaging approach was developed for the bank. Outside windows now contain two posters: one with a short message on a huge field of Scotiabank red; its companion carries a strong image with the bank's logo.

Inside, the red was overpowering, so a taupe was chosen to complement the branch decor. But the split messaging approach from the outside is carried inside: advertising is

divided into four groups: everyday banking, borrowing, investing and protection. "Brand communications," with a long shelf life, are placed in the windows and near the personal banking offices. "Campaign communications," which change frequently, are near the customer service representatives and ATMs.

A year later, the bank and branch staff are delighted with the new look, calling it "a small change with a huge impact."

## Shared Branching

The inability to use the branches of any and all credit unions has long been identified by non-members as a reason for not joining a credit union. The 2003 Credit Union Motivators and Barriers Research Study revealed that shared branching—being able to undertake transactions at the teller counter of any credit union branch in Canada, as if it were your own branch—had a significant and positive effect on the decision to use a credit union among both existing members and non-members. The effect was most marked among non-members, with “the strong likelihood to consider a credit union” increasing from 36 percent to 70 percent. In focus groups, credit union members were also enthusiastic about the concept, although many acknowledged that they would probably not use the service. For them, the security of knowing it was available—“just in case”—was appealing.

Shared branching complements a credit union’s proprietary branch network and expands branch access for its members. It reduces both the substantial initial investment required for a new branch and the ongoing operating expenses such as rent, maintenance, equipment and staffing. Proponents contend that shared branches improve convenience for members and strengthen customer relationships, leading to greater product use. Finally, partnering with complementary organizations over a wider geographic area helps avoid disasters, or, if necessary, helps in disaster recovery.

Several initiatives are underway in BC and nationally, to develop a practical way to introduce inter-credit union connections. Meanwhile in the US, credit union shared branching strategies are widespread.

### The US Experience

In the US, many credit unions are closed bond, serving the employees of a particular company or industry or the members’ various unions. Consequently, branches are often concentrated in the workplace. When not at work, members regularly use another credit union’s branches near their home, downtown or other high traffic areas.

Launched in 1975, shared branching now serves 16 million members of over 800 US credit unions with 1,200 branches throughout 39 states and offshore military bases. Shared branching operates through three network providers, all owned and governed by credit unions. Service Centers Corporation (SCC), the oldest network, opened the first

shared branch in the US nearly 30 years ago, and today operates branches in Michigan, Maryland, Texas, Missouri, Wisconsin and Virginia. Credit Union Service Corporation (CUSC), started in 1993, operates the Credit Union Service Center National Network. And the Financial Service Centers Cooperative (FSCC), based in California, links 170 credit unions nationwide. The three networks provide services to their collective membership through an umbrella organization, CU Service Centers Network. The ultimate goal? To make it possible for all credit union members to use any branch of any credit union worldwide.

Shared branching can take one of three forms:

#### *Stand-Alone Shared Branch*

The original form of shared branching, the stand-alone shared branch is owned and operated by the network provider (e.g. SCC, CUSC), and can be used by members of the credit unions belonging to the network.

#### *Credit Union Outlet*

Proprietary credit unions, not the shared network provider, own and operate the branch. As an ‘acquirer’, the proprietary credit union serves members of participating credit unions, in accordance with the network’s operating rules. As compensation, the proprietary credit union receives an interchange fee that varies according to transaction type (e.g., \$2 for a typical withdrawal). However, surcharging and cross-selling to another credit union’s member are prohibited.

#### *Partnership Outlet*

Debuted in 2002 by SCC, the partnership outlet splits ownership and operation. The outlet is owned by one or more credit unions, but is operated by the network provider.

Through shared branching, credit union members have access to a wide range of services, including deposits, withdrawals, balance inquiries, official cheques, cheque cashing, money orders and credit card advances. Some services, such as loans, ATM card requests and wire transfers, are not universally available through shared branches. Different cash withdrawal limits (e.g. \$500 daily) may be imposed in shared arrangements, and administrative matters, such as holds and stop payments, must be handled by the member’s own credit union.

### Shared Branching Initiatives In BC

Since the summer of 2002, the Northline credit unions have been offering a limited inter-credit union transaction service for their members. The project allows members of nine credit unions from the Northline Peer Group to access their accounts through other participating credit unions' in-branch "Teller" services. This function is facilitated by a specialized addition to the in-branch (CUDirect) version of MemberDirect. It allows members to make cash withdrawals, account inquiries, funds transfers, stop payments and bill payments. The participating credit unions are delighted with the service, saying that their members are enthusiastic about the idea, although few have used it.

Central's Payment Services Department is currently working on a way for CUDirect to accept deposits, as well as "real-time" messaging. This will allow "straight through processing" of many transactions through MemberDirect, providing a provincial and national solution for conducting inter-credit union transactions. Technical development is expected to continue into 2004.

## The Emerging Role of the Concierge or Greeter

Once found only in luxury apartments or hotels, the concierge has found a new perch at the door of banks and credit unions. Their tasks vary from place to place, but all perform these basic duties:

1. greet and welcome customers to the branch
2. discern the customer's wishes and direct them to the appropriate part of the branch
3. tell customers about the branch's offerings, including self-serve options

With a concierge at the door, customers spend less time waiting and are less likely to be "passed around" from line to line, looking for a person to help them. Concierges can also direct people with routine transactions to the branch's ATMS and Internet sites—a double advantage for the branch: usage of the less expensive electronic channels increases and staff can spend more time on cross-selling.

CIBC has recently introduced a concierge at its new flagship branch on Keele Street in west Toronto. The greeter works the banking hall, welcoming customers at the door and shepherding them around the 12,000 square-foot building.

## Summary

The branch is not dead! Electronic delivery channels may have led some to proclaim it moribund, but the traditional branch remains fundamental to the distribution of banking services. Consumers still rely on the branch for researching a financial institution, resolving a problem or purchasing a new product. The physical presence of a branch also lends credibility to an organization that a strictly virtual bank finds difficult to replicate. As consumers have adopted electronic methods for routine transactions, the branch focus has shifted to sales, consulting services and more complex transactions.

To meet the evolving expectations of consumers, and to recoup the investment made in a new branch, financial institutions are redesigning their branches, both aesthetically and functionally. Luxury items like concierges, coffee bars, and fireplaces now share space with Internet banking kiosks in the branches of the most progressive institutions.

Because the branch's function is changing, Canada's largest banks are aggressively reducing the number of branches in towns and rural areas, while opening sophisticated retail stores in cities. Opening a new branch or redesigning an old one is expensive. Location and design decisions are critical in attracting and retaining customers over the long-term. In making these decisions, a credit union must consider marketing variables (demographics, competitors, commercial and residential growth), and design issues (merchandising, image, technology, and flexibility).

It is no longer simply a choice between a stand-alone branch and electronic delivery channels. In-store locations, mobile branches, roving mortgage specialists, retail money stores and shared branching are all part of the new equation. These alternatives deliver personalized service at less cost for the company and greater convenience for the consumer. Retail money stores, in particular, represent an entire industry that has emerged to serve a specific market niche—one largely ignored by mainstream financial institutions.

The branch may not be dead or even sick, but it has been transformed to a sophisticated store for financial services. The branch lives on as an unsurpassable way of delivering exceptional and profitable service to customers.

**BIBLIOGRAPHY**

The Corporate Information Centre maintains a comprehensive business library and archives of legal, periodical and newspaper collections with access to many commercial databases and subject files, including the sources of information provided within this issue. Contact: Diane Walker at 604 737 5971 or [dwalker@cucbc.com](mailto:dwalker@cucbc.com) for further information regarding the services of the Centre.

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**ADDITIONAL SERVICES****Research Services**

Central's Marketing & Research Department offers Customized Research Services: competitive intelligence, member satisfaction and perception surveys, exit interviews, surveys of new members, mystery shopping, focus groups and in-depth interviews. For further information, please contact Jim Walker at 604 730 6445 or email [jwalker@cucbc.com](mailto:jwalker@cucbc.com).

**Mapping Services**

Central's Business Development Services Department Branch offers a comprehensive mapping service, market opportunity analysis, and assistance in evaluating, developing and implementing branching and segmentation strategies. For further information, please contact Kim Andres at 604 730 6414 or email [kandres@cucbc.com](mailto:kandres@cucbc.com).

**Economic Data and Statistical Analysis**

Central's Economics Department offers: economic data and statistical analysis for help in making branching decisions. The department also publishes the popular *Strategist* publication; the November 2003 edition published a comprehensive analysis of branching and deposit taking activity in BC. For further information, please contact Helmut Pastrick at 604 737 5026 or email [hpastrick@cucbc.com](mailto:hpastrick@cucbc.com).