

THE ART OF POSITIONING

## bancography

BRANCH PRODUCT RESEARCH BRAND

Photo courtesy of  
Redstone Federal Credit Union, Huntsville, AL



## The Benefits and Perils of Video Remote Tellers

Amidst declining teller transaction volumes and pressures to reduce branch operating costs, video remote teller machines have become increasingly prevalent. The video remote teller technology allows an institution to operate in-branch teller stations (both lobby and drive-in) using tellers stationed outside of the branch location. Rather than interacting directly with a teller in person, the customer instead speaks to the teller over what amounts to an advanced-function ATM with two-way video connectivity built into the ATM screen. The machines can accept both checks and bills and can dispense bills and coin; thus, they can perform many typical transactions such as deposits, withdrawals and check cashing.

Despite widespread recent publicity in the industry press, the video remote technology is not new and has been used for at least 30 years in branches with detached drive-ins. However, in that original application, the teller was in the nearby branch and received and delivered items through the same pneumatic tube system as in any drive-in.

Since those early years, drastic improvements in bandwidth and thus video quality and the ability to conduct the transaction from any remote location – not just the branch – have expanded use of the technology.

Today, video remote tellers can be used not just for drive-in transactions, but even to replace lobby tellers. The benefit of video remote tellers lies in their ability to serve multiple branches at once. Whereas a teller in a low-transaction branch may suffer repeated intervals when no

customer is in line, the video teller is based in a remote facility and connected to multiple branches, and can address the next customer in line in any connected branch. Therefore, the chances of that teller facing idle time are considerably lower, and as such, the institution can use fewer tellers with less idle time to address the same demand.

While that scenario may initially appear attractive for its likely ability to reduce staff costs, the video technology also carries risks. First, understand that at a time of increasing electronic channel use and declining branch transactions, the customer who still visits the branch likely does so specifically for an in-person interaction. There are myriad ways in which customers can interact with the institution without visiting the branch. So if consumers have taken the time to leave their home and travel to the branch, they've sent a resounding signal that they are specifically seeking an in-person interaction. Especially for community banks that cite personal service as a differentiating quality, the abandonment of in-person tellers could controvert the institution's brand proposition.

Beyond the inherent loss of direct in-person interaction, the video technology carries other limitations. The current generation of video teller machines accept only a limited number of items (30 – 50 bills or checks in many machines) and not coin, and thus can not accommodate all transactions. Business customers – a highly profitable segment – may find those limitations untenable, necessitating at least one in-person teller; and in a split live/video environment, some customers may object to a choice between waiting for the only live teller to become available and using the less personal video lane.

Those cautions notwithstanding, the video remote technology carries benefits in certain applications. For rural branches with low-transaction demand, the centralized servicing ability may provide a vastly more efficient *(continued on page two)*

*The Benefits and Perils of Video Remote Tellers* continued from page 1

means of fulfilling transaction demand across multiple branches. While that premise can apply to all low-transaction branches, it is especially important in low density rural markets where the low demand reflects an inherent market trait, rather than a reversible low share position that can afflict branches in high-demand suburban and urban markets. Regardless of market type, the greatest financial benefit will accrue to lower-volume branches, since in high-volume branches tellers engage in customer-facing activities the majority of the time, eliminating any advantage of relocating that function off site. But note that many of the staffing advantages of video remote tellers can also be achieved by adapting a universal banker service model, in which the teller role is eliminated while customer service representatives assume the presumably low volume of remaining transactions through teller cash recyclers.

Video remote tellers can offer benefit in high-activity branches, too, most notably in the ability

to provide after-hours service at the drive-in lane or in an entry vestibule. While a high-volume branch may derive little benefit from addressing transactions centrally during peak hours, in low-demand weekend or evening hours the video technology could deliver the same benefit as in low-volume rural branches. Still, the video teller machines can cost more than \$80,000 each, an expensive convenience if not leveraged across the entire business day.

As with many automation tools, video remote tellers carry tradeoffs between personal service, customer expectations and operating efficiency. In certain applications, the technology can support service delivery that would otherwise be cost-prohibitive to maintain; in other applications, it can reduce teller costs or support extended hours of operation. However, community-based institutions that cite their personnel as a primary differentiating asset should strongly consider customer perceptions before supplanting personal in-branch interactions with a remotely based alternative.

*Sure, your core systems backed up, but what about the loan applications in process that are still taken on paper? The file you stored on the C drive of your laptop that you took home to work on over the weekend? The referral sheets for your sales tracking program?*

## **An Important Reminder about Disaster Recovery Plans**

On May 22, at approximately 3:00 p.m., a fire broke out on the third (and top) story of the building that houses Bancography's offices. Our offices are in a 1906 building that previously served as a grocery warehouse, auto showroom and blue jeans manufacturing facility. In the late 1990s it was renovated as a mixed-use loft development, with offices on the first floor and apartments on the upper floors. Fortunately, despite a three-alarm fire that required more than 40 firefighters to control, no people or pets were injured. And while fire damage was moderate, smoke and water damage was extensive throughout the building.

At Bancography, we back up all files daily, and back-up tapes are stored offsite in a bank safe deposit box. Fortunately, those backups were not needed, as our servers suffered no damage; but take this as a gentle reminder – every bank and credit union needs disaster recovery plans!! Sure, your core systems are backed up, we're confident every institution has

that covered. But what about the loan applications in process that are still taken on paper? The file you stored on the C drive of your laptop that you took home to work on over the weekend? The referral sheets for your sales tracking program? The best defense against disaster are diligent backups, a prewritten restoration strategy and a periodic practice run. If the first time you test the recovery strategy is following the actual disaster, well, that's not the best time to discover the gap in your documentation or the errors in your process.

We're operating out of temporary offices for a few months, and will let our clients and colleagues know if this leads to a permanent address change (we're still not sure of the restoration schedule for our old building). Rest assured all client data remain safe and operations remain intact. But use our story as a reminder – check your back-up processes, test your disaster recovery plans! And of course, we'll hope that diligence insures you'll never need to actually use those plans.

## How to Evaluate Potential Branch Sites

As the economic recovery takes hold across the United States, banks and credit unions alike are returning to branch expansion efforts. However, with economic growth still moderate, it is imperative to choose sites that offer the best possibility of success. This requires a detailed understanding of the demographic and competitive environment within the proposed branch trade area. Of course, before you can assess trade area demographics, you must first define the trade area.

In general, branch trade areas are inversely proportionate to the population density in the surrounding area. Thus, rural branches can draw from 5 – 7 miles, as there will often be no other town or retail concentration within that range to impede the branch's drawing ability. However a typical suburban branch may draw from only 2 – 3 miles, as beyond that range consumers would find more convenient options; and the time to travel 2 or 3 miles in a congested suburb can easily exceed the time required to travel 5 or more miles in a rural area. For similar reasons, trade areas in urban corridors usually fall at less than 1.5 miles, and can be as restrictive as 1/3 to 1/2 mile in the densest markets (e.g., Midtown Manhattan, Lincoln Park in Chicago), where consumers gauge convenience in terms of pedestrian blocks rather than automotive miles.

When defining trade areas, keep in mind also that not all drawing areas are radial, as natural barriers such as rivers and manmade barriers such as major highways can truncate a branch's ability to attract customers. Regardless of the trade area's extent, always convert the presumed drawing area to census rather than postal geography; that is, use the census block groups rather than the ZIP codes within the defined radius (or polygon) as the basis for retrieving demographics. Whereas census block groups are drawn to impound demographically homogenous areas and to respect dividing barriers (railroad tracks, highways, etc.), ZIP codes exist for only one reason – to facilitate the efficient delivery of the U.S. mail – and thus have less relevance to likely branch drawing areas.

Trade area profiles typically span both demographic and competitive dimensions. Regarding the former, several benchmarks can provide context for proposed branch trade areas:

- Look for a minimum of 2,500 **households** in the trade area. Though there are exceptions where a smaller market can support a viable branch, it will be difficult for a branch facing a household base significantly below the 2,500 threshold to realize sufficient balances to allow profitable operation.
- **Household growth** and **turnover** rates affect branch success, as consumers are more likely to change financial providers after moving; that is, it is easier to capture a relationship from a new-arriving household in a market than to pry that relationship from an incumbent provider. For comparisons to proposed branch sites, the U.S. overall five year household growth rate is forecasted at 3.6% (2014 – 2019), while household turnover (the proportion of existing homes that will sell or lease to new occupants) is projected at 29% over that same period.
- The use of every financial product, deposit and loan, is positively correlated with **income**. Thus, branches in trade areas with higher

income profiles will tend to outperform those in less affluent areas.

The U.S. overall median household income of \$60,970 provides a benchmark against which to compare prospective branch sites.

Although a lower income profile does not preclude profitable branching, it often dictates a smaller and less costly service model.

- The use of many product types varies with age; most notably, loan demand decreases sharply in older years. Examine the **median age** (head of household, so as to profile the financial decision makers in the market unbiased by under-18 residents skewing the statistic) of the trade area relative to the U.S. overall 51.4 level to help assess which products the branch would emphasize.
- **Home ownership status** and **presence of children** also affect product expectations; for example, mortgage demand would be limited in a market with low home ownership levels. Across the U.S., 64% of households are homeowners, and 32% of households have children present.
- Some branches are better positioned to address business banking or bank-at-work demand versus traditional residential consumer demand. Thus, examine **business and employment counts** in the proposed trade area. Dividing those counts by primary industry type (such as SIC or NAICS code) can provide further insights; for example, the income profile of employees in the manufacturing sector greatly exceeds that of employees in the retail sector. Finally, the employment-to-household ratio provides a quick indicator of an area's daytime activity. A ratio below 0.7 indicates a pure bedroom community with limited daytime traffic. Such markets are well suited for extended hours and weekend operations to address commuters who spend the workday outside of their home submarket.

While demographics describe one dimension of the market, competition represents a second critical element. Accordingly, it is beneficial to examine not just the count of competing financial institutions in the proposed branch trade area, but also the historic growth rate of those branches. Even in a sizable market, if the number of competitors yields a ratio of less than 800 households per branch, the trade area can be considered as approaching saturation, raising cautions as to the ability to support additional branches. And if the top branches in a trade area have added no more than \$15M in deposits over the past five years, it is difficult to presume that your institution's new branch would reach \$30M over the next five years, absent drastic changes in the underlying market composition. As a benchmark, note that U.S. retail and small business deposits grew at a 3.0% compound annual rate over the past four years, indicating favorably for submarkets that posted significantly greater growth rates in that period.

Demographic and competitive assessments remain the foundation of effective branch planning efforts, and the above-noted benchmarks can provide guidance for specific evaluations. Of course, specific site attributes (access, visibility, quality of retail anchors) demand consideration, too; visit the Bancology online archive at <http://www.bancography.com/bancologyindex.html> for several articles about that critical component of the branch site evaluation process.

# New Bancography Plan Features

Bancography is pleased to announce the release of its new *Bancography Plan* software. The software now features a new, dynamic mapping application, which delivers more attractive, colorful, clearer maps with landmarks and other features. Visit [www.bancography.com](http://www.bancography.com) for more information and to test drive the software.



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*Welcome to Bancology,  
a Quarterly Journal from Bancography*

