Building a Successful Virtual Credit Union Branch

by Sabeh F. Samaha

Executive Summary

To stay competitive it is imperative that a Credit Union's online banking suite of products and services include account aggregation, bill-pay, check imaging, remote capture, funds transfer, loan approvals, mortgage services, online enrollment, secure forms, account balances, e-alerts, e-statements, and stop pays.

For many Credit Unions, existing relationships with core and strategic partners leaves critical variables out of the equation. Best intentions and promises aside, if core and strategic partners can't guarantee a platform that includes all necessary components and variables within the next 12 to 18 months, it's time to re-enter the market, build new relationships and acquire better solutions.

Therefore, Credit Unions should conduct the necessary research, determine areas of weakness, and develop a sound, strategic plan that exceeds both employee and member expectations. Revamping and integrating existing platforms is a formidable challenge, superseded only by a ground-up build out.

An unbiased third-party technology consultant can provide a Credit Union with the necessary tools to navigate the vendor negotiation process. Without experienced oversight, a Credit Union often loses sight of its strategic vision that, in turn, results in costly mistakes that lead to the inability to capitalize on the multi-tiered benefits of a progressive virtual branch channel.

Industry Overview

The Cambridge, Massachusetts-based Forrester Research Inc. projects that by 2011, 76 percent of wired households will bank online; 73 percent of baby boomers (born between 1946 and 1963) and 44 percent of online seniors (born in 1945 or earlier) are expected to be using virtual banking tools by that time. While Boomers use of online banking from 2006 to 2011 is expected to grow by 43 percent, those numbers are overshadowed by Gen X users (born 1964 to 1980) and Y users (born after 1981) at 85 percent each.

When faced with the question: what are the key ingredients to a successful virtual Credit Union branch, one mustn't look too far past the aforementioned statistics. And while encouraging and educating the Boomers-and-beyond demographic is essential, tapping into the Gen Y pool is critical.

For example, a 2005 study by Pew Internet & American Life Project, which explores Americans' Internet usage, found that 44 percent of all Internet users were trying out online banking, but only 25 percent of wired people over 60 had engaged in online baking activity.

And while it's hard to believe, three years have passed since this statistic was published. In that time, many thousands of Gen Y's have graduated from college and many thousand more entered colleges and universities nationwide, a number that will reach nearly 18 million by 2010. This “Young Adult Market” comprises the new work force—the financial future, and they are looking for financial institutions that “get them.”

According to BrassMedia, Gen Y, a demographic that never experienced Johnny Carson live on television, is driven by money and social consciousness. One in three high school students has a credit card in his name. In a recent poll, 64 percent of Gen Y respondents said getting rich is their most important goal. On average they spend $100 per week, and 82 percent of respondents whose parents have an account with a financial institution also have an account with the same institution. To this end, they are most influenced by their parents and their peers.

While a number of issues are presented when investigating virtual banking, perhaps the most significant is cross-market user-ability. It stands to reason that what works for a 70-year-old postal retiree will not necessarily work for a 22-year-old college graduate who has recently returned home to live with mom and dad while seeking validation by continually surfing job boards and checking in with Facebook and Myspace. These online community based forums are comprised of millions of users who discern, dissect, and discuss topics ranging from their favorite bands to their worst banking experience.

Gen Y’s see virtual banking as yet another extension of their respective virtual existence, which is essentially a collective experience. Whereas a coffee break was once at the coffee machine, today’s emerging young adults sip an energy drink while checking their Facebook accounts. If a financial institution receives a bad rating on Facebook, for example, the quick rippling effects within this medium are alarming and can offset marketing budgets targeted at this audience. And at last check, 38 Credit Unions were featured on Facebook with varied ratings. When it comes to user-ability, functionality, and interpretation of an organization’s operation, Gen Y’s are the “go to” demographic.

In order to construct a successful virtual Credit Union branch, a sound plan must be in place which includes understanding respective demographic user-ability requirements and the core and strategic partnerships that will deliver an efficient operating platform.

When formulating the foundation for a sound plan to enhance a virtual branch, the following questions should be asked and *honestly* answered:

- What is your strategic plan?
- What is your timeline?
- What value will be created by enhancing an online channel?
- Will your virtual branch become a primary channel for future business?
- What are your expectations?

To better understand the components of a successful virtual branch, let us take a look at seven critical categories: Online Banking; Remote Capture; Electronic Bill Payment and Presentment; Online Loan Applications; Online Fund Transfers; and Online Account Aggregation.

Online Banking

A decade ago, when the idea of online banking was embraced by forward-thinking industry analysts, it was generally scoffed at by the banking public due to uneasiness in providing vital personal and financial statistics from a home computer. At that time, Generation X was curious and willing to explore the medium. Boomers were skeptical, and those who were older simply didn't trust anything other than a teller at a brick and mortar structure. For the latter, this hurdle still remains which is why it is critical for Credit Unions to offer in-branch, online computer tutorials to bridge the gap and create a user-friendly approach to online banking, even if it begins in the branch.

Last year, a CashEdge Consumer Online Banking Survey concluded that 85 percent of online bankers would never bank with a financial institution that did not offer online banking, and 65 percent of online bankers stated that they would move their finances to another institution to gain access to a more varied, user-friendly online banking platform.

Today, Online Banking is as accepted as the ATM machine with nearly all first and second tier banks and Credit Unions offering internet banking services. No longer is online banking a competitive advantage but a necessity. And as is the case with all technologies, it has built upon itself which, in turn, has provided more security and confidence to users, many of whom have shifted perspective into transforming their online banking into a highly interactive personal portal.

In order to achieve this all-important goal, financial institutions are working around the clock on enhanced navigation systems, interactive tools, integrated processing of account and product applications, segmented offerings, and targeted marketing strategies. And to show how much the banking public has changed in the last 10 years, 61 percent of U.S. residents check their account balance a few times of week.

Financial institutions, therefore, are actively pursuing strong revenue performance processes, developing online customer retention processes, increasing deposit generation activities, and determining how to best integrate an online banking platform with call centers and mobile phone banking.

Last year, Harris Interactive released a study concluding that one in four cellular phone users with mobile internet access use their devices to buy goods and services online with a credit card; one in five said they would like to someday use cell phones as a "mobile wallet."

The study also concluded that mobile phone users are increasingly comfortable making banking and purchase transactions in transit. 16 percent of mobile phone subscribers already use mobile banking services, with 60 percent of these people using the services at least once a week. Many others presently not banking and buying on the go expressed interest in mobile banking, with 35 percent open to checking bank account balances and transferring funds via their mobile devices.

Mobile banking is an outgrowth of online banking. With 30 of the largest banks spending nearly $55 million per year on online banking platforms, it makes sense that customers are becoming more comfortable with virtual banking concepts. For CitiBank, the investment has paid off considerably. In 2001, for example, its online sales were 14 million. In 2006, that number skyrocketed to 14 billion.

According to a Forrest Research Study, customers choose online banking for the following reasons: 51 percent because it is free; 45 percent because it is simple to use; 43 percent because they make last minute payments; 33 percent because information is posted quicker; and 31 percent access their accounts multiple times each month.

Therefore, in order to compete and thrive is this ever-changing climate, Credit Unions must convert their online banking platform into an effective sales channel by offering a highly interactive portal for increased customer satisfaction, usage, and retention.

Among variables comprising a successful virtual branch solution is "Remote Capture."

Remote Capture

A familiar but somewhat antiquated form of remote capture is the ability to pay a bill by phone or email by providing a check routing and account number. This concept was forever changed and expanded upon in October of 2004 when the "Check Clearing for the 21st Century Act" was passed giving rise to Image Replacement Documents (IRDs).

Known as a leading "sticky" service, analysts predict that approximately 40 percent of all financial institutions will offer remote capture capabilities [in some capacity] to customers during the next four years. Secure banking autonomy is the future.

Benefits of remote capture include the elimination of members traveling to the branch for deposits which removes geographical dependency. For example, if a member relocated out of state, he does not need to find a new financial institution. However, in many cases, local members are taking advantage of the ability to skip a trip to the bank.

Additionally, the time frame for accepting deposits is increased, which in turn allows funds to become available to the members more quickly. To this end, cost and time associated with processing hardcopy checks including mailing and exchange with the Federal Reserve is significantly decreased.

When approaching the concept of remote capture, a Credit Union must identify the driving reasons for implementation. For instance, will remote capture help to retain existing members or is it a part of the overall strategy? In most cases, the answer is both. Additional concerns should include the operational, legal, credit, and marketing ramifications associated with integration.

In many cases, hardware and software solution providers offer easy integration opportunities that can be used with existing core business applications and third party software.

A successful virtual branch is truly a sum of its parts. When integration is implemented creating a secure, progressive user platform, these online banking "parts," one of which is Electronic Bill Payment and Presentment, become more accepted.

Electronic Bill Payment and Presentment

A survey of 20 banks concluded that nearly half are providing Electronic Bill Payment and Presentment (EBPP) for free. In order to best understand EBPP, let us take a look at the progression of a typical online member who over the course of the last five years has become comfortable shopping online and paying via a credit card.

This process has conditioned customers to feel comfortable and secure with the idea of an online bill payment. However, identity theft and fraud have been significant stumbling blocks in user confidence, and rightly so; although with online credit card payments, there is a built-in sense of security because the user is not left holding the bag if fraud takes place. The trick, therefore, is to provide members with a safe platform to manage their saving and checking accounts online without fear.

According to a 2008 Javeline Strategy and Research Report, an increased consumer vigilance along with financial institutions launching multi-factor authentication contributed to a 12 percent decrease in identity fraud losses in 2007--falling from $56 billion to $49 billion. As a result of due diligence and increased securities in the financial sector, mail and phone identity fraud increased from 3 percent in 2006 to 40 percent last year. And while financial institutions can claim a helping hand in these statistics, they still have a long way to go in communicating to their consumers that online banking is secure, safe and perhaps most important, in their best interest.

It has been widely reported that one of the obstacles to cross-market adoption of EBPP centers is the complexity of billing systems and processes used by competing banks and financial institutions. And while many analysts agree that EBPP is ideal for cross-marketing services, certain financial institutions continue to resist implementation for fear of being unable to cross-promote services to customers. Other issues have risen including the fear of losing out on lucrative cash-management services, which might conjure memories of the turmoil experienced when the financial industry fought and subsequently lost over credit card transactions. Additionally, disputes over adopting uniform security and implementation standards have overshadowed the implied benefits of EBPP.

Now that the issues impacting industry adoption of EBPP have been covered, let us look at how the market has changed in the last few years making EBPP a viable, essential tool. According to a report by Personix, EBPP is not only "officially" accepted industry-wide but a segment that is growing rapidly which is supported, in part, by check usage for consumer bill payments falling from 50 percent in 2005 to 27 percent (projected) by year-end 2008. By 2010, approximately 47 million U.S. households (approximately 53 percent) will pay bills online marking a 75 percent increase from 2004.

Credit Unions should take note of another critical statistic offered by Personix which found that over 40 percent of major consumer billers such as lenders, card issuers, phone companies and utilities now offer online bill payment through their respective websites.

There are two accepted categories for electronic bill presentment: pull and push. The latter method uses email as the medium to deliver electronic bill notification. Upon opening the email, not unlike like an envelope, members are presented with a link which is embedded in the body of the email directing them to the financial site for reviewing and bill payment. While some institutions also notify members in tandem by snail mail, it is a practice that is loosing momentum. This is for good reason as the premise of secure electronic payment is based, in part, on eliminating the average time a person takes to review a paper bill, write a check and mail it: 10 minutes.

The "Push" option has had it share of drawbacks, however. Recently the technology research organization Gartner released a study concluding that phishing attacks in which an email poses as a message from a bank or commerce site and lures the recipient into divulging information duped more than two million people in 2006 alone. Therefore, vigilant policies and procedures must be deployed alerting members to these scams. Members should only release personal and financial information if a locked padlock icon is visible in the lower corner of their browser window, and if "https" is in the URL, not just "http."

The latter advice is not geared toward Gen Y's because they have uncanny instinct and ability to spot scams and spam, which in turn means any marketing toward this demographic has to be savvy, progressive, and sleek. By 2010, this demographic, presently 70 million strong, will be one-third of the U.S. population.

The "Pull" method alleviates many of the aforementioned issues as it requires members to visit a secure website and validate entry with user authentication. Due to varying demographics, many financial institutions opt to use a multi-channel bill presentment, which combines the push, pull, and traditional paper-based methods to ensure members are receiving statements in a timely fashion. However, despite the medium which notifies them to make payment [electronic or paper], the real *push* is to pay bills online.

Reasons related to apprehensive adoption rates is varied as associated costs include: rolling out back-end system integration, front-end information delivery systems (email, websites), User ID and security management systems, EBPP distribution, presentment and collection work flows, and Connections to back-end billing and payment systems.

And while return on investment is tricky because it is hard to quickly quantify member adoption rates, certain cost-saving benefits are immediately apparent including reduction in paper billing—materials, printing, postage, and labor. Additionally, recent reports find that 70 percent of all call center calls fielded are related to billing questions.

It might appear that discussing Electronic Bill Payment and Presentment before Online Enrollment is like placing the cart before the horse; however without a firm understanding of EBPP, the latter would be fruitless.

Online Enrollment

While it might be cliché, it holds true that first impressions are lasting. To this end, in today's busy world Credit Unions have one shot to effectively attract and gain new members virtually. It is easier said than done as there are countless snafus and mistakes in well-intended platforms. Therefore, online enrollment remains a significant challenge for Credit Unions.

Marketing plays a significant role as perspective members must be convinced that the Credit Union's offerings are both attractive and beneficial. Again, this marketing has to be varied and cover the spectrum from the Gen Y to post-Boomers. If virtual marketing is successful and the necessary wave was created to bring new "surfers" to the website, getting them to enroll will be an equally difficult task.

"Online Enrollment" is also a vague term. To be clear, an online enrollment form or an online questionnaire that can either be emailed or printed and snail-mailed doesn't count as an "Online Enrollment." In order for your service to be considered an official online enrollment destination, a user must be able to become a registered user–start to finish in one quick sitting (approximately 10 minutes or less).

According to Forrest Research, the majority (54 percent) of online applicants abandon their application before submitting. The reasons are varied; however, concentrating on incentives, required information (pertinent information only) and ease-of-use/entry are among leading categories that if done correctly result in a higher submission rates. Of those polled, 12 percent of respondents cited the following leading reasons for not completing their enrollment: changed their minds about applying online (12 percent); had privacy security concerns (11 percent); wanted to speak with a sales representative (11 percent); and thought the application was too long (11 percent).

Additionally, an online enrollment process that informs the user of the remaining duration (two more questions and the process is complete, etc.) has proven beneficial in increasing submission rates. Once a candidate is enrolled, more information can be harvested. The trick is getting them through the virtual door.

Today, many larger banks are aggressively offering $75 promotions for new accounts opened online. This is particularly attractive to the Gen Y demographic that on average cites debt, bills, and cost of living as leading problems. Additionally, financial institutions are developing new products to be sold exclusively through the online channel with higher interest accounts only accessible through this avenue.

A recent report found that 31 percent of online banking customers are more likely to purchase additional services from their banking institution; 9 percent are more likely to recommend the financial institutions; 44 percent use the website to order checks and engage in other self-service transactions; 44 percent of online bill payers visit the site daily; 21 percent are more likely to use the website as their primary channel; and online bill payers tend to use more self-service banking features.

Self-service banking features such as online loans are a significant market segment which Credit Unions historically have not fully capitalized on, and the reasons are varied. Let us take a closer look.

Online Loan Applications

A recent survey conducted by Callahan & Associates found that Credit Union members who failed to complete their online loan applications did so due to questions or problems and are less likely to use the online channel in the future, a problem also closely associated with online enrollment.

Of those polled, 40 percent of online members reported either completing or attempting to complete an online loan application. More than one-fifth of those who tried using an online loan application did not complete it. Of these attempts, auto loan applications (39 percent) were the primary type, followed closely by mortgage loans (33 percent). About one-fourth were signature/personal loans (24 percent), while only 12 percent were home equity loan applications.

Those members who successfully completed an online loan application were nearly twice as likely to use an online loan application in the future. However, and perhaps most shocking, members who abandoned an online loan application are more reluctant to try one in the future than even the non-user group, which supports the point made earlier that a member's first experience is lasting.

If a member's business is lost due to an antiquated or cumbersome application process, a Credit Union must quickly address this all-important issue. Online loan applications are, on average, the lowest rated Credit Union channel.

When analyzing an online loan application platform, take into consideration that the study revealed that online loan applications were typically abandoned due to a need for more information, either in terms of having questions (41 percent), uncertainties about loan options (23 percent) or unclear terms/wording (11 percent). For 22 percent of respondents, they did not have the required information ready. Providing safety protocols for online loan applications will increase successfully completed applications.

One such initiative that is gaining popularity is re-introducing the human element to online loan processing. While it may sound counter intuitive, statistics support the move. In a majority of rejected online loan applications, for example, members were required to provide accurate information. While they might have their information on hand, they might not have had their spouse's information but submitted anyway. Without this critical information the member's debt ratio might exceed the Credit Union's lending requirements.

If an online representative were involved, whether by chat request, specific instruction guide for each question or customer contact number, this statistic would decrease. Certain remote capture platforms now allow Credit Union representatives to efficiently and expediently virtually guide members through the loan application process.

Ease of use and time spent on an application are significant issues for enrollment success. However, if a Credit Union offers the most competitive mortgage or car loan rates, the member will be encouraged to see the application process to fruition even if it requires additional time and contacting a representative or searching the website for FAQs or a tutorial.

If a member is comfortable using alternative banking features that are considered somewhat evasive, such as online loan applications, they will likely adopt other applications such as electronic funds transfer.

Online Funds Transfer

The ability to make electronic funds transfer (EFT) to individuals, small businesses, and other accounts is a key component to a solid online banking platform. In recent study focusing on online banking habits, 81 percent of those polled said they use their banking website to transfer funds.

The savvy online banking customer needs to have the ability to securely send money or make same day transfers to friends, relatives, and small businesses without oversight or complication. This feature is also attractive to users because it consolidates account information thus improving financial management and oversight.

Aside from adding value to a financial institution's online banking platform, it enables transaction revenue generation by charging per inter-institution transfer and person-to-person payment. Above all else, if executed without issue, it becomes a popular feature, one that members will use continually.

The New York-based BuzzBack Market Research recently reported that 80 percent of respondents prefer to transfer funds online and 92 percent want mobile devices to combine with the Internet, kiosks, and ATMs to improve their overall service experience And with approximately 240 million U.S. cell phone subscribers, representing roughly 80 percent of the population, the number of U.S. households banking or making payments by mobile device is projected to rise to nearly 50 million by 2016. At year-end 2007, this figure was estimated at approximately one million. The industry is changing quickly, and adoption of key technologies will determine if a financial institution will remain vital moving forward.

EFT Pros:

- EFT payments are safer than checks and should eliminate more than $60 million annually in forged, counterfeit, and altered checks.
- EFT eliminates lost or stolen checks.
- EFT payments are faster than checks, with funds available on the date the payment is due.

- EFT payments are easy and convenient.
- EFT payments eliminate the need to obtain and deposit your paycheck or cash your paycheck each payday.
- EFT payments facilitate on-line banking at your bank or Credit Union.

As noted earlier, technology builds upon itself. If members are comfortable with the concept of virtual banking and are provided a trouble-free, secure platform, they will likely want to expand their horizons and experiment with all available online banking services. The culmination of which is account aggregation.

Online Account Aggregation

The best way to enhance an online banking platform is to offer members the ability to have a one-stop shopping attitude toward bill management and payment. Thus, account aggregation provides the ability to consolidate financial account management at one user-friendly website.

Account aggregation is beneficial to members who do not prefer to commit to memory the website addresses, numerous account numbers, passwords, and PINs for their ever-increasing number of on-line relationships. This is particularly important to the Gen Y demographic.

Take for example a person who has three credit cards from one bank, two charge cards from another banks, and a portfolio at an online brokerage firm. He or she can log onto one website, enter a user name and password, and review all account information, each accessed with its own user name and password. While financial institutions seldom charge to provide account aggregation, they do incur a cost for providing members with this umbrella service that is essential in an ever-increasing competitive climate.

According to the National Credit Union Administration, Credit Unions considering account aggregation should evaluate the needs of their members and the overall strategy of the Credit Union. This process should include member surveys, focus groups, speaking with experts, and completing a cost/benefit analysis.

As with all technologies, it is prudent to execute risk assessment. This process includes identifying and determining the likelihood of risks and threats, and appropriate risk mitigation techniques. Key considerations include security, privacy, and liability.

Perhaps the most significant risk is if the aggregator's database that stores authentication data provided by the member is compromised, as all of the members' online account relationships are at risk. This also exposes the Credit Union to the potential of financial losses due to fraudulent use of the information (at the Credit Union and other financial institutions), potential of extortion, and potential for legal action by the impacted members and financial institutions. Members could also face the risk of identity theft.

Conclusion

It's not enough to simply offer online banking services in today's market. Credit Unions must raise the bar in order to compete with major banking institutions. And while investment in this all-important segment can be costly, Credit Unions have a distinct advantage in that they can roll out new technologies on a smaller scale than their banking counterparts.

However, simply meeting minimal online banking requirements will not provide for a successful virtual branch. Credit Unions must both know their market and the needs of their member base, both of which are hard to determine from the inside out. Engaging a consultant to assess current online banking services as well as the ability of existing core and strategic partnerships to meet new demands is critical to achieving success.

This process also includes conducting marketing research that will provide a firm understanding of target demographics. Moving forward, concentrating on capturing the Gen Y segment, which, again, will be one-third of the U.S. population by 2010, should be on a Credit Union's radar. Not only will you need to speak their language but also offer them a user experience that is in line with their online behaviors and demonstrates an understanding of their outlook, likes and, most importantly, their dislikes.

As noted, Credit Unions are receiving ratings on Facebook. Not unlike the Boomer who will not return to an online loan application after abandoning it after the first try, if a Gen Y perceives an organization as untruthful or has treated someone unfairly, they essentially "blackball" the organization never to return. However, unlike the Boomer who might describe the bad online loan experience at the next cocktail party, the Gen Y's virtual posting remains alive for all to see with a quick Google search.

Therefore, a successful online banking platform requires Credit Unions to take an honest look at their online offerings, determine variables that will enhance the online banking segment while concentrating on demographically-centric user-ability issues. More often than not, Credit Unions can not see the forest for the trees and require unbiased consultation to identify what is currently working, what is missing and what needs to be implemented. It is with this due diligence that a successful virtual Credit Union branch will be realized.

Sabeh F. Samaha is president and CEO of Samaha Associates, a consulting group that works collaboratively with Financial Institutions to help improve business processes by optimizing efficiency and increasing revenue opportunities. Whether it is vendor contract negotiations, system conversions, or mergers, Samaha Associates understands what gets the job done from conception to fruition. Sabeh can be reached at (909) 597-2020, sabeh.samaha@ssamaha.com or www.ssamaha.com