

fmswhitepaper

Low Transaction Volume Branches in 2014
An Overlooked Opportunity

By W. Michael Scott, CEO, FMSI

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Introduction

As a result of strategic initiatives to grow branch network footprints, low volume branches (LVB) inevitably exist in almost every financial institution (FI).

When comparing these LVBs to other branches, they have much higher labor costs per transaction. Exacerbating the higher labor cost is the gradual year-over-year decrease in branch transaction volumes caused by the increasing account holder adoption rates of omnichannel banking.

The actual financial impact these LVBs are having on the operational efficiency of the entire network of branches is often underestimated.

Defined as a branch with less than 3,000 front-line transactions per month, on average, LVBs represent 25% of most retail branch networks, yet only 8% of the total transaction volume, resulting in an average paid labor cost per transaction being 142% higher for LVBs (per FMSI data). The resulting operational inefficiency is costing financial institutions enormous amounts of money – every year.

This white paper offers community banks and credit unions tips that can significantly reduce the negative financial impacts that low volume branches are having on their branch networks, including:

- Utilizing a universal associate model to optimize workflow
- Adjusting hours or completely closing some LVBs
- Minimizing employee idle time by scheduling more meaningful tasks during downtimes in traffic

The LVB Impact

Like keeping cash in the vault, having LVBs in your branch network is oftentimes a necessary part of doing business. Whether they are in smaller communities that would otherwise not be served, or they were new branches that never grew as expected, the cost implication of LVBs is often brushed aside to focus on larger branches.

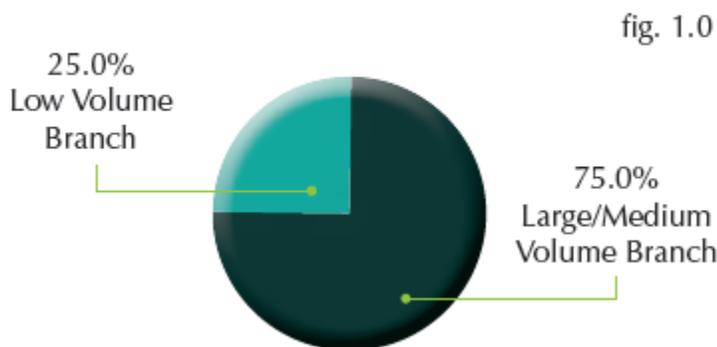
With LVBs growing in the marketplace (up 3% since 2011), FIs that continue to overlook efficiency improvement opportunities in LVBs could lose serious ground to their competitors. With the combined cost of labor, utilities, technology, maintenance, and property taxes reaching an annual operating cost at a minimum of \$200,000 to \$250,000 per LVB, these

branches are costly to operate. Another way of looking at this cost is that to break even on the operating expenses for a LVB, the branch would have to generate and maintain a collectable loan portfolio, with a net 3% interest rate margin spread, totaling \$5,000,000 and be contributing significant deposit dollars as a low cost of funds to be used in the branch network for funds management. Are your LVBs at least performing at this minimum?

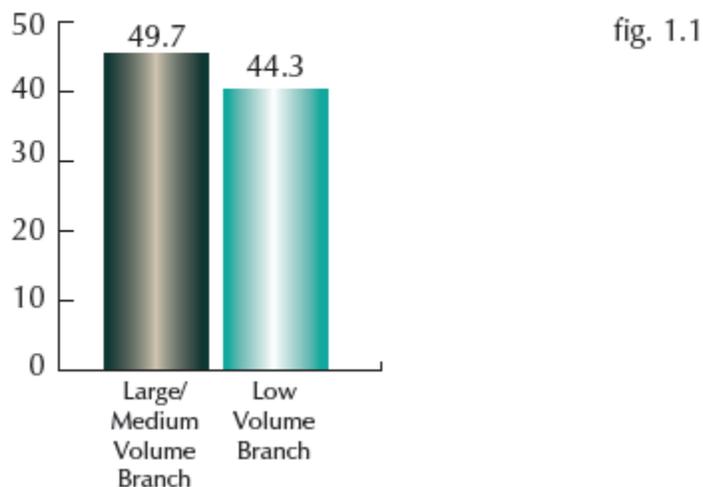
LVBs by the Numbers

A September 2014 FMSI transaction analysis study of 120 institutions, which represented community bank and credit union branches located all across North America, shows the current environment of LVBs compared to larger volume branches.

Percent of Branches

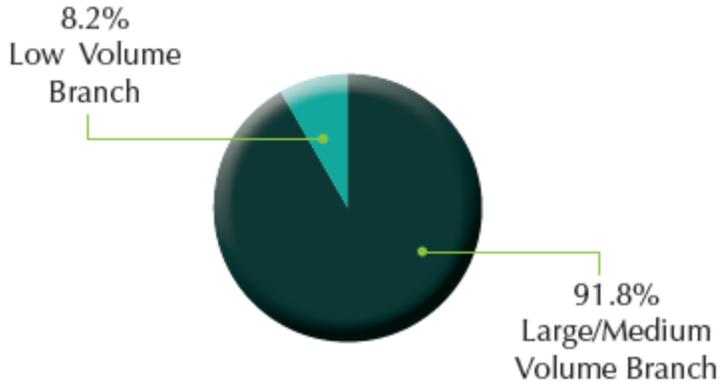


Weekly Hours of Operation



Percent of Transaction Volume

fig. 1.2



Analysis:

With the percent of LVB branches representing a much larger portion of the total branch network than the percent of LVB transactions, many are questioning how many hours per week LVBs should be operating in their branch network. Have you considered reducing the hours of operation at some of your LVBs?

Average Monthly Transactions

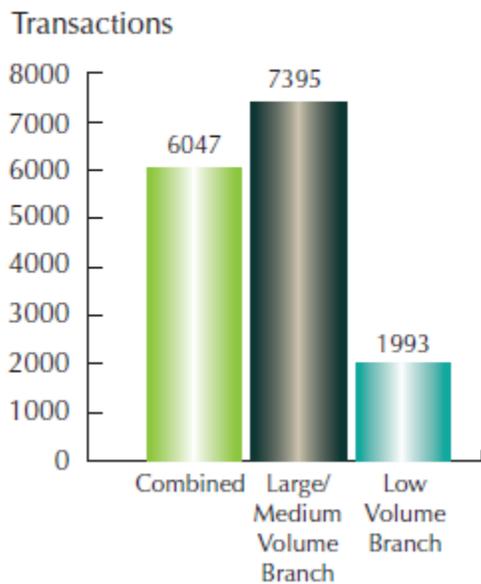


fig. 1.3

Average Daily Transaction Volume

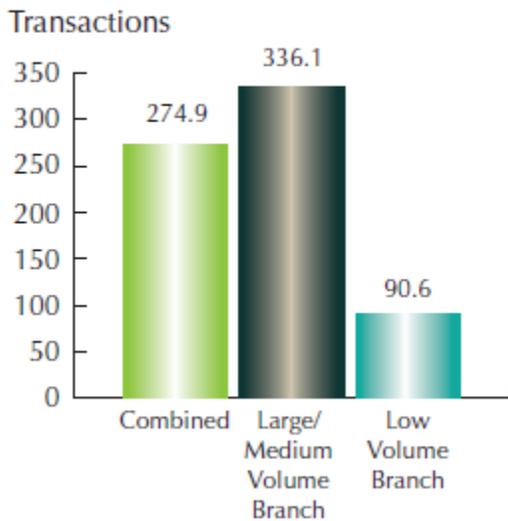


fig. 1.4

Average Daily Processing Hours (Accumulated Hours When Transactions Occur)

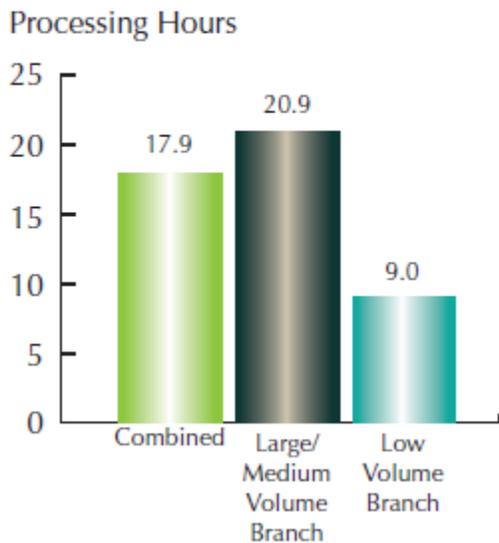


fig. 1.5

Analysis:

The average daily processing hours is the cumulative total of all the 15 minute increments throughout the hours of operation at a branch where a transaction occurs. So if 10 transactions occur between 10:00 and 10:30, and then no transactions occur between 10:30 and 11:00, it would count as 0.5 processing hours.

The most glaring metric on this page is the average daily processing hours (see fig. 1.5).

This information tells us that, on average, a transaction is processed 57% less of the time in LVBs than large/medium volume branches. Perhaps merging some of these LVBs with other branches would make it possible to help improve branch efficiencies.

Low Volume Branch Staff Performance Metrics Teller Productivity—Transactions per Hour

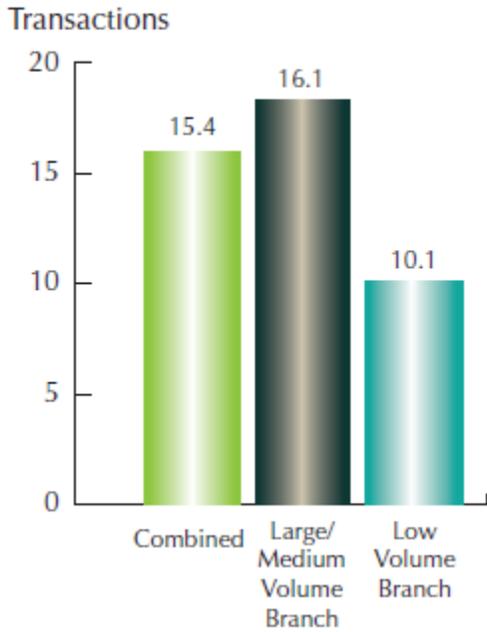


fig. 2.0

Paid Labor Cost per Transaction

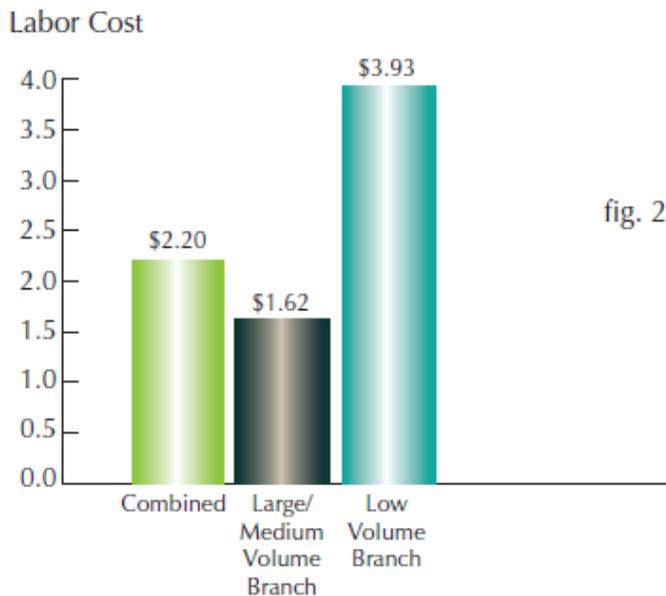


fig. 2.1

Analysis

Front-line staff productivity is significantly lower in LVBs than large/medium volume branches. As evident in the 143% difference in paid labor cost per transaction when comparing LVBs to large/medium volume branches (see fig. 2.1). The performance of these branches does have the potential for significant improvement, such as utilizing technologies to improve efficiencies.

2011 vs. 2014 LVB Numbers

fig. 2.2

	2011	2014
Percent of Branches	21.9%	25%
Weekly Hours of Operation	45.9 Hrs.	44.3 Hrs.
Avg. Monthly Teller Transactions	1995	1993
Percent of Volume	6.5%	8.2%
Avg. Daily Volume	90.7	90.6
Avg. Daily Processing Hours	8.9	9.0
Teller Productivity- Transactions per Hour	10.1	10.1
Paid Labor Cost per Transaction	\$3.87	\$3.93

Analysis:

Not only has the percent of LVBs increased by 3% since 2011, but the paid labor cost per transaction has also gone up slightly.

With no signs of this trend reversing course, it can be a prudent use of FI management's time to take a closer look at improving the efficiencies at their LVBs. The following pages offer some tactics on how to potentially accomplish this.

Tactics for Maximizing LVB Performance

1. Utilizing a Universal Associate Model to Maximize Staff Performance in LVBs

Universal associates are staff members that can perform multiple roles, including both tellers and lobby sales representatives. Two major advantages of the universal model are:

- Reduces branch labor cost by consolidating the need of multiple roles to handle demand into fewer employees.
- Improves sales and service by increasing the opportunities account holders are spending with highly trained and more knowledgeable employees.

When considering the universal branch staff scheduling approach, many financial institutions struggle with where and when to deploy universal associates.

LVBs are ideal candidates for universal associates. Oftentimes, smaller branches are required to have multiple employees who have individual responsibilities coinciding with their different roles.

Universal associates can adopt several roles simultaneously and reduce the need to have multiple staff members in the branch throughout the whole day. Consider only having universal associates at some of these branches.

2. Adjusting Branch Hours or Closing LVBs

If the LVB were to be closed or consolidated into other neighboring branches, the right way, history shows there would be little to no volume lost to the competition.

Below are some possible actions to consider:

- Reduce the weekly hours of operation. While actual hours of reduction will vary based on your particular branch network environment, FMSI's study suggests, the average weekly hours of operation could be reduced as much as 25-35% from the current study's 44.3 hours per week to a more modest number of 30 (M-F 9 to 3) or 35 (M-F 9 to 4).
- Close LVB Saturday operations. The FMSI study results show closing these branches will result in a minimum impact on branch network transaction volume given these branches average only 50 transactions on a Saturday. While your actual institution impact will vary, the results should closely mirror the FMSI study results.

3. Redirecting Employee Idle Time

Using Sophisticated Branch Staff Schedulers to Measure and Forecast

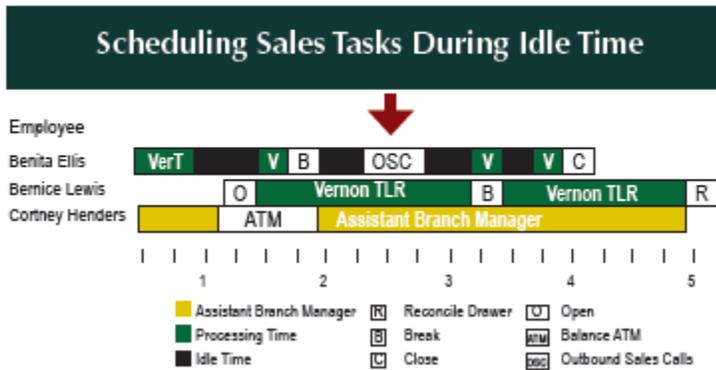
Having the ability to quantify your universal associate idle time—and then identifying exactly when to schedule additional sales related activities, like additional supervisor coaching sessions or performing outbound sales / relationship calls to account holders—can lead to improved branch sales.

Assigning “Sales Activity” with Staff Scheduling

These outbound sales/relationship calls with account holders can be the most effective activity to fill up idle time. In some cases, you have account holders with deposits in your institution that have not had a conversation with anyone at the branch in years. Without this personal connection, account holders are more likely to leave for the competition.

By having your branch staff call account holders, you are potentially establishing a valuable relationship with that individual. With the right tone and calling content, a call can come off as sincere, and establish a strong connection.

fig. 3.1



Management Tip #1 — LVBs Act as Call Centers

Have these branches become a customer service call center. If your other branches are taking account holder service calls in the branch, have your telephone systems configured to send incoming branch phone calls to these low volume branches to be handled and free up the larger branches to service their onsite traffic.

Management Tip #2 — Deploy Video Teller Technology

Some innovative banks are now providing branches with video screens for account holders to use. This approach would eliminate some staffing needs at remote locations, while still providing the branch services for the account holders in the area.

Management Tip #3 — Minimize Dual Control

Minimize labor intensive dual control with the use of technology. Use cash recyclers and teller image capture. One teller could easily handle this volume of transactions and the use of a cash recycler would take the place of dual control and the cash vault. The teller image capture will eliminate the need for branch capture and provide a good audit trail. These technologies can reduce the teller labor costs by 50%.

Conclusion

As highlighted in this paper, LVBs are costly, not likely to grow in transaction volume, and will continue to become more expensive over time. Take the right steps to analyze your LVBs and take appropriate actions to reduce their costly impact. Knowing your particular numbers is the first step.

- How many LVBs do you have?
- What are your costs per LVB?

- What is your decision criteria to keep a LVB open?
- Have you conducted an Hours of Operation Analysis?
- Can you consolidate or close any LVBs?
- How will you use technology to conquer this expensive challenge?
- What kind of metrics will you add to your monthly reporting?
- Are you sure you are making a profit on your LVBs?
- What are your other options?

This white paper offers community banks and credit unions tips that can significantly reduce the negative financial impacts that LVBs are having on their branch networks, including:

- Utilizing a Universal Associate model to optimize workflow
- Adjusting hours or completely closing LVBs
- Minimizing employee idle time by employee scheduling to help assign more meaningful tasks

The LVB employees are often bored to death by no activity. By employing a cash recycler and universal associates, and adding value added tasks while minimizing staff, can also enrich the jobs of the staff in the branch.

About Financial Management Solutions, Inc. (FMSI)

Located in Atlanta, GA and established in 1990, FMSI provides easy-to-use, yet sophisticated, software as a service solutions that allow financial institutions to manage and staff to meet their service and sales needs while improving productivity.

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Published by:
Financial Managers Society, Inc.
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