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THE TRUE VALUE OF SELF-SERVICE COIN MACHINES

Beginning in the late 90s, credit unions began to realize that offering member coin processing service had potential value. Awareness increased as management learned of Coinstar’s success placing machines in retail outlets, mainly grocery store chains.

Many credit unions did not offer coin service of any type. “Coins are just too hard to handle and process and they have little to no value,” was the thinking. Consequently, a majority of them required members to put coins into rolls before accepting them or required them to leave the coins behind for processing sometime later. Both approaches drove their members to the supermarket to pay a hefty percentage for the convenience of redeeming their coins for cash.

Credit unions that did offer coin service did so with back office coin equipment that required staff involvement in a non-member facing process. While the member realized some value with this approach, the credit union did not because the staff was continuously burdened with the need to leave the front line, often at peak times, to handle these low value transactions.

Initially, credit unions embarked on a search for member self-service alternatives to meet the need to provide coin service to its members. Those decision processes were often driven by traditional priorities such as reducing staff labor and providing a fee for service income generator. After all, if the grocery store was charging nearly 9%, and people were flocking there to process their coins, credit unions could certainly do the same thing for a lesser percent, look like the good guy and drive top-line revenue at the same time.

The most progressive credit unions sought alternatives that would provide a needed, valuable member service while also supporting other strategic objectives of the institution. Dozens of prominent credit unions, who were pioneers with respect to offering and promoting self-service coin centers, have evolved to a new set of ‘best practices’.

Many of these CU adopters have elected to offer the service 'free of charge' to both members and non-members. So where is the real value of self-service coin processing if it is not in labor savings and fee for service income?

CUNA has weighed in on this issue as follows:

“[self-service coin technology]...provides a needed service and brings the member experience back into the branch, creating a 'launching pad' for marketing initiatives, relationship-building and cross selling.” (CUNA White Paper entitled “The New Marketing Launching Pad,” September 2006)

While it is certainly true that implementing a self-service coin solution will impact staff labor involved in processing coin and that the opportunity exists to generate fee income from the service, it is the marketing value of self-service coin that really drives implementation decisions for the more progressive institutions today.

So it's about Marketing Value...

It is a well established fact that the branch is the main sales platform for all types of financial institutions. The branch is where new accounts are opened and additional products are sold to existing members more than any other channel. It is also true that innovations over the years like ATMs and online banking have meant infrequent branch visits by many members. As a baseline, self-service coin impacts branch foot traffic. Members must lug their coins to the branch in order to redeem them for cash or to deposit them.

The self-service coin reality is this, “self-service coin processing is not entirely self-service in most cases!” These machines typically automate the coin counting process, which is performed by the member without the need for assistance from CU staff. The machine then issues a receipt that is taken to a teller for processing. That simple element provides a member (or potential member) interaction that holds great potential value for credit unions.

Putting self-service machines online for deposits eliminates this interaction for those who choose to deposit their coins. Most credit unions who have implemented self-service coin machines will tell you that less than half of those who use the machine will actually deposit the coins in their account. Most folks who bring their coins in are on a 'mission.' That 'mission' is to redeem those coins for ready cash! Suffice to say that most of these self-service machines are installed off-line to force that face-to-face encounter.

The table below demonstrates the number of staff interactions with members and potential members over a five year useful life of a self-service coin machine based on the following assumptions: 1) 16 transactions per day; 2) 224 business days per year; and 3) a mix of members and non-members using the machine of 75%/25%; 4) No fee charged to either members or non-members.

	Number of Transactions (each day)	Number of Business Days (each year)	Number of Interactions (per year)	Number of Interactions (over 5 years)
Current Members	12	224	2,688	13,440
Non-Members	4	224	896	4,480

One way to look at this opportunity is to think about what other Marketing initiatives will put more than 13,000 members in your branch with the opportunity to cross-sell them other products? What other marketing initiatives will attract more than 4,000 prospective members to your branches? Credit union executives ask themselves, “What are the costs of our current initiatives aimed at bringing members and potential members into our branches?” and “How successful are they?”

What Marketing Initiatives?

So if it’s about the Marketing Value, what are some initiatives that make sense to actually deliver the value?

Self-Service coin is an enabling technology. Without member acquisition and cross-selling strategies that are effectively executed at the frontline, little value will be realized from these incremental staff interactions. Fortunately, many credit unions have already invested heavily in staff training, CRM systems, and the development of a ‘sales culture’ to support such strategies.

Innovative Marketing programs can also drive incremental traffic to your lobby.

Self-service coin machine deployments can tie-in directly with kid-focused saver or educational programs that attract young members. Promoting coin deposits in community-oriented charitable or fund-raising events can help your CU attain its goals in this area plus provide positive visibility in the community.

Credit unions can also use a self-service coin machine deployment to extend the visibility of their brand or even build a new one by giving the machines a name. A number of CUs who have adopted this technology and promoted it, have successfully done both!

Most credit unions also have member service level goals that are aimed at effectively delivering a full range of services to its membership. Slogans like “Improve the member experience” or “Delight our members” and other service-related statements show up in the mission statements and priorities of many CUs. The ‘win’ for those credit unions that do this well is ‘stickier,’ more enthusiastic members who will recommend your credit union to others. The obvious question here is, “How can you be full-service without offering coin service?”

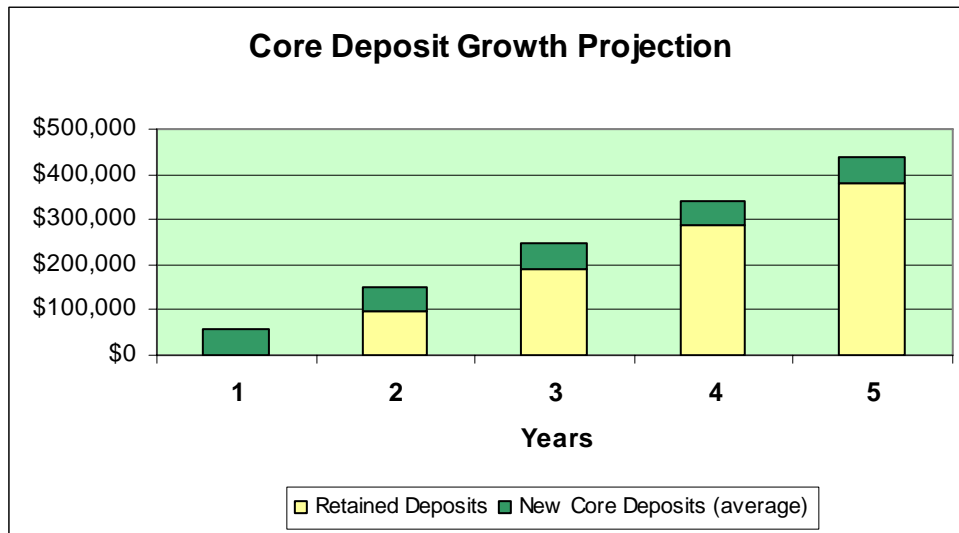
Impact on Core Deposits...

One of the tangible benefits of aggressively marketing self-service coin processing is the impact over time on core deposit growth. The perceived value of coins in the U.S. is quite low. In fact, those who bring coins in for deposit or redemption consistently underestimate the value of those coins and are delighted when the cumulative coin count total exceeds their expectations.

In the example we used earlier to project the number of member and non-member interactions we used the following assumptions:

- 1) 16 transactions per day
- 2) 224 business days per year
- 3) Mix of members and non-members using the machine of 75%/25%
- 4) No fee charged to either members or non-members
- By adding the following additional assumptions to that same example...
- 5) Average transaction size of \$75.00
- 6) 40% of members using the machine deposit the value of their coins
- 7) Members (and deposits) are retained at the rate of 85%

We can make the following deposit growth projection over five years:



Those seemingly low value coin deposits can really add-up over time! If you apply a 4% spread earned on those deposits, you will see that your machine investment pays for itself on this metric alone without factoring any financial returns for the sale of incremental products to existing members or the value of new member acquisitions enabled by the self-service coin implementation. A more comprehensive financial analysis should include these elements as well as factors for staff labor impact and service fee income, if applicable.

It's Time to Consider Change...

Credit unions that have already deployed or are considering the deployment of self-service coin equipment consider a wide variety of potential benefits. Included are: reduced staff labor, and the potential for fee for service income. Many, however, have not considered the real marketing value that can result in low-cost core deposit growth, increased member wallet share, new member acquisition, better member satisfaction and retention, and brand prominence.

Bob Allexon is Director of the Indirect Sales Channel for De La Rue Cash Systems. His experience in the cash handling industry spans 25 years. For the past eight years, he has been deeply involved in the design, development and marketing of self-service coin processing solutions for financial institutions throughout the United States. De La Rue is a global leader in branch cash automation equipment including a full line of self-service coin machines, branded QuickChange™. Along with the QuickChange line-up, De La Rue offers a complete Marketing package to help members realize the true value of a self-service coin deployment as well as a comprehensive business model that will assist in the collection and presentation of data required to assess the full financial impact of a self-service coin acquisition.

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