Closing the gap in self-service banking

Digital to Physical to Digital

CARDTRONICS

Executive Summary

As financial institutions grapple with how best to compete for accountholders in a digital environment, an undeniable truth is that physical forms of payment, in particular cash, still matter to consumers. While consumers are signaling a greater focus on mobile banking, a key area of competition among financial institutions, physical proximity to cash-out and cash-in features, remains equally valuable and necessary. That's because paper payments – led by cash – continue to be among the most used payment methods of consumers and small businesses. While the ability to extract physical currency from one's digital banking account has become commonplace through the ATM, the moving of hard currency back into the financial cloud remains mostly dependent upon a branch ATM or teller.

In this paper, we examine the demand that exists for paper-based monetary deposits as a necessary component of digital banking based on specific use cases. Further, we share our finding that meeting the demand for deposits is best achieved by integrating these capabilities into an institution's digital/mobile eco-system by leveraging a network of deposit-enabled ATMs.

Introduction

On September 2, 1969[1], Chemical Bank installed the first ATM in New York City. That little-noted moment marked the beginning of the self-service era in banking. For the first time, accountholders enjoyed the freedom of having access to the cash in their accounts on an on-demand basis without time or other limitations.

Fast forward 50 years and in 2019, the ATM remains front and center in a financial institution's self-service strategy. Only now, the stakes are much higher as cash access is just one feature of providing basic banking services on demand. Today, consumers expect to remotely perform many of the same transactions that used to require a branch visit. Yet, a remote self-service gap remains in the digital banking ecosystem – PCs and mobile devices can move around digital funds but cannot directly interact with physical currency. They require a digital-to-physical middleman as depicted in Figure 1.

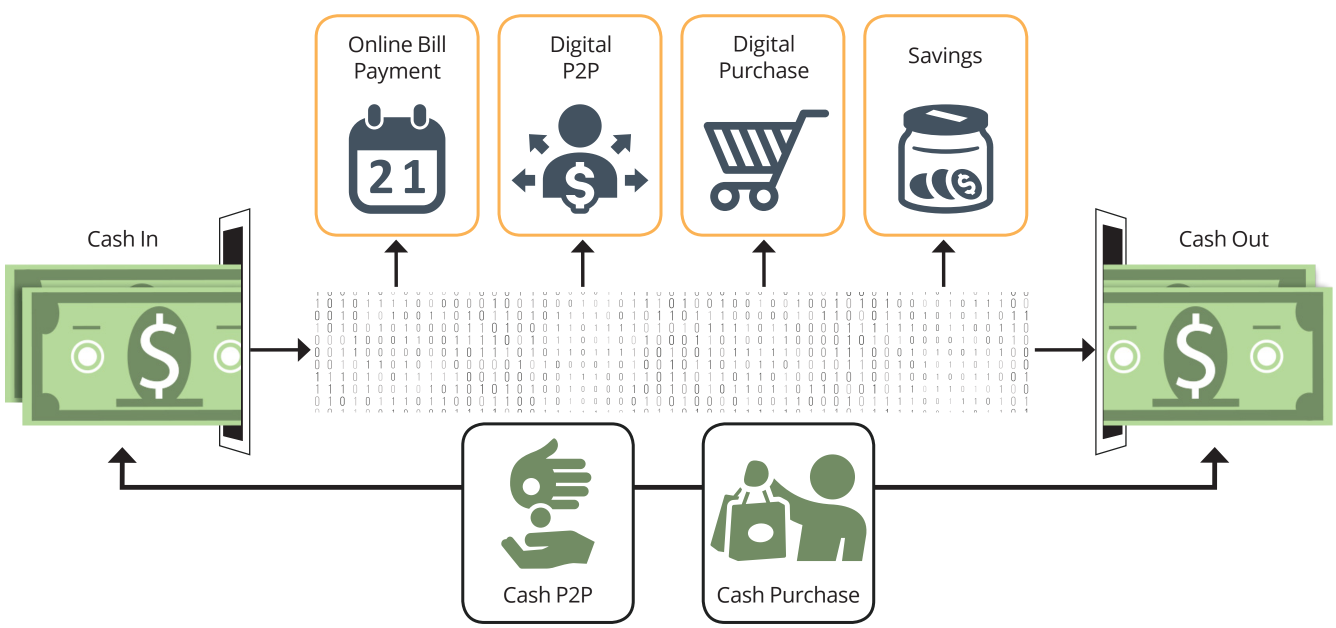

Figure 1: Physical-to-Digital-to-Physical Ecosystem

In Figure 2, we define the typical banking channel's eco-system as being composed of two main categories of services, with each category comprising a primary channel for either transaction-based or communication-based services. Increasingly, best competitive practices stipulate that financial institutions should align each channel with one another (omni-channel) to provide the service expected by consumers and small businesses at the moment it is needed in their preferred manner.

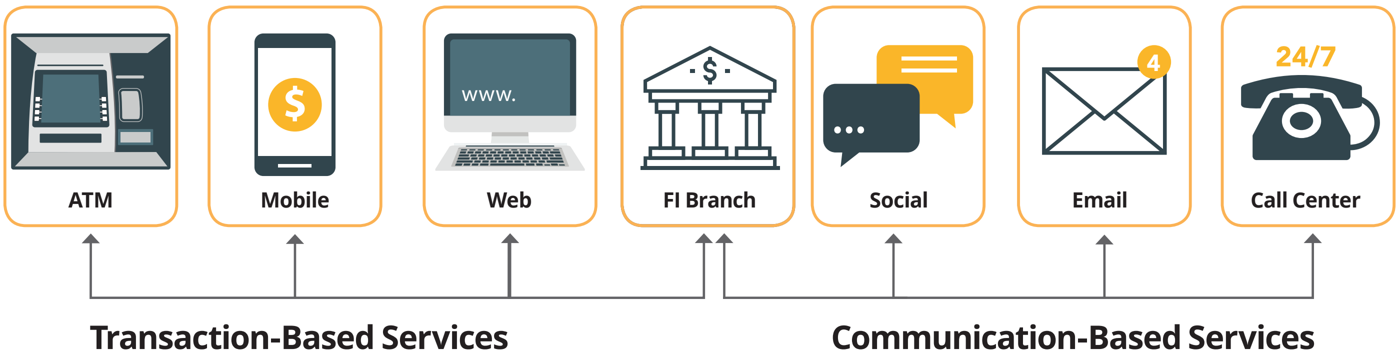

Figure 2: Eco-System of Financial Institution Banking Channels

Your accountholders expect to be able to meet their daily financial needs regardless of whether they're transacting digitally or physically. Imagine going into a branch and being told that one's checks have to be deposited via the web or constricting account opening information to a mobile application only. In today's competitive environment, consumers expect their accounts to be available via any channel they choose, at any time and in the most convenient manner possible.

The Remote Self-Service Gap: **Cash and Check Deposits**

In the United States, consumers know that withdrawing cash from their account is simple and readily available. Non-branch ATMs are common and there are large, distributed networks of them across the country. But a cash withdrawal is only one side of the transaction. What about deposits? That's where it gets complicated. Let's first look at the ability to make a check deposit through a traditional branch channel. According to the most recent data from the Federal Reserve, the number of branches per 100,000 households in the United States has fallen from 35 in 2011 to 32 in 2016. The decrease may appear small, but it actually represents approximately 3,750 branches that no longer exist, a decline of nearly 10 percent that can be even more pronounced in certain rural areas.

Can't consumers simply use remote deposit capture to deposit their checks? According to a recent report by Celent[2], there are approximately 80 million users of mobile remote deposit capture services in the United States, which is a fraction of consumer and small business accountholders. However, all remote deposit capture services are not the same. Financial institutions use a wide variety of technologies, apply deposit thresholds, and even block off certain consumer or small business segments deemed too risky to use this deposit methodology. In addition, mobile deposit capture implies that consumers are technically comfortable with this type of transaction and have trust in its safety and security.

Cash deposits fare much worse, illustrated by the advice below given by a well-known consumer financial services advisory website[3] to readers who have accounts in an online-only bank that asked how to deposit physical currency without access to a bank branch or a deposit-capable ATM nearby.

- Deposit locally, transfer electronically to another bank or credit union
- Buy a money order and then deposit the money order
- Load cash on a reloadable prepaid debit card
- Find an ATM that offers a link to their account

If one has cash to deposit, none of these solutions are particularly appealing. If you were to rank any of these on a Customer Effort Score scale from very easy to very difficult, where would you place these options? Not to mention that each of these solutions has the potential for a range of new fees and costs to the consumer.

The Sustainability of Cash

Even with all the payments innovation taking place today, cash remains a sustainable, one might even say permanent, payment type for most U.S. consumers. For example, according to the 2016 Diary of Consumer Payment Choice, in a one-month period (October 2016), consumers made 14.1 cash payments, which aligns closely to typical monthly debit card payment activity. These statistics underscore the importance of cash payments to consumers, particularly for low-value transactions.

Importantly, consumers also have cash they need to deposit. This was illustrated in a study by The Fletcher School that examined the cost of cash in the United States, in which they found[4]:

A cash windfall might sit in the home for weeks before it is deposited or used.

The 2018 report on the Diary of Consumer Payment Choice (DCPC) by the Federal Reserve found the following, shown in Figure 3:

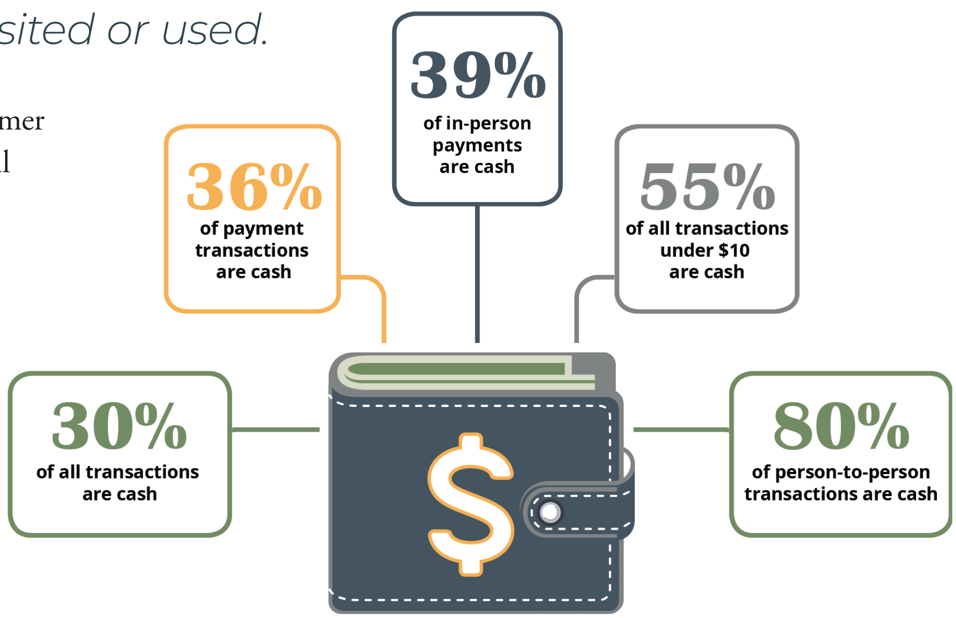

Figure 3: Cash Facts from the Diary of Consumer Payment Choice, 2018

Use Cases For:
Cash and Check Deposits

However, cash is not used for low-value payments only and checks remain a persistent form of payment, especially for business-to-consumer payments, even with recent gains in digitizing such transactions. Therefore, we further examine the problem of on-demand paper deposits by reviewing the various use cases for cash and check payments that drive the need for on-demand deposit capabilities. We define six primary categories for these deposits and explore them in more detail.

Refunds and Rebates

One of the most complicated sub-segments of our financial services market in the United States is the use of refunds and rebates. Covering a very wide range of participants, from government agencies to tax assessors to retailers, telecom providers, and more, a vast majority of consumers take advantage of these payments each year. For example, Consumer Reports estimated that approximately 70 percent of all U.S. consumers take advantage of a manufacturer's rebate alone in any given year[5]. State government agencies issue millions of checks each year for various tax rebates. For example, in 2018, New York State issued 2.1 million checks to their citizens for a local tax rebate program[6].

Personal Payments

Personal payments vary widely and include person-to-person, charitable giving, social and sports organizations, and split-the-expense payments. Each of these types represents a giver and a receiver and it is the receiver that is left with cash or a check to deposit. Looking at charitable giving, for example, we found that 72 percent of all charitable giving is from individuals, representing approximately $281 billion, of which only $31 billion is given online[7].

Work and Fee Income

Current Federal Reserve estimates[8] indicate the gig economy represents about 75 million workers, which includes everyone from a babysitter to a ride-sharing driver. Employers are required to pay employees via a paper check if they request it and, in some states, such as California, employers are required to pay employees all owed monies on their final day at work. In 2016, a survey by NACHA[9] found that 82 percent of employees were paid via direct deposit, leaving 18 percent being paid by cash or check. According to the Bureau of Labor Statistics, there were 152,276,000 individuals in the workforce at the end of 2016, meaning that over 27 million workers received their wages in paper form that year[10]. Additionally, eight states have no law requiring direct deposit and twenty-one states require employees to consent to direct deposit, while three states have a complicated mix of regulations governing payroll.

Depository Accounts

According to the Federal Reserve, as of January 2019, there were $2.1 trillion dollars in checkable deposits in the United States which includes deposits made into demand deposit, savings or money market accounts. Note in Figure 5, this number has been steadily rising each year since 2015, only recently indicating a slight decline.

Of this total amount, personal savings represented $944.2 billion in November 2018[11 & 12]. Importantly, the manner in which accountholders make deposits can have a big impact on a financial institution's bottom line. For example, it has been estimated that making deposits at the counter or at the ATM using envelopes costs $1.82, but making the same deposit in an envelope-less ATM costs $0.58 cents – a difference of $1.24 or 68 percent.[13]

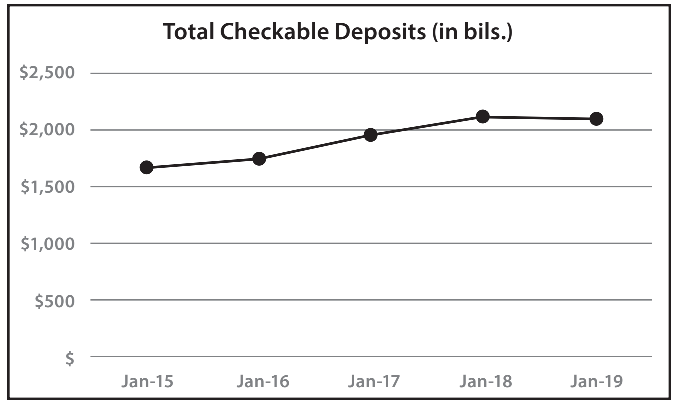

Figure 5: Use Cases for Cash and Check Deposits

Insurance Payments

The insurance payments category includes auto, home, life, and health insurance claims. For example, in 2016, 5.3 percent of insured homes experienced a claim, according to the latest data from the Insurance Services Office (ISO). This represents approximately 3.71 million homeowners for whom one insurance claim can generate multiple checks such as: home damage, personal effects damage, medical expenses, additional living expenses, and flood damage.[14] These payments represent millions of paper payments requiring deposit.

Under-Banked

Every two years, the FDIC conducts a survey of unbanked and underbanked households in the United States.[15] The FDIC defines "underbanked" as households that had at least one account in an insured financial institution, but also used alternative financial services firms. This segment represents 18.5 percent of all U.S. households, or 24.2 million households. Important to this study, 30 percent of underbanked workers received their income in the form of cash and 10 percent received their income in the form of checks. Put simply, approximately 9 million households have to deposit cash or checks into a bank account each month.

Our macro view of these use cases indicates that a sustainable market exists to provide accountholders–particularly those that are digital-first and self-service oriented–with a convenient, safe, and cost-effective method of depositing cash and checks into their accounts.

Closing the Physical Gap: **In Digital Self-Service**

In its most recent consumer survey on banking preferences, PwC cites an interesting statistic:

65%

of consumers feel it's important to have a local branch[16]

This local branch is the bank's brand in market and signals to accountholders the bank's physical presence in the market. What do interactions between consumers and banks look like in a digital environment? The answer is complicated, since consumer preferences will vary by age, income and other demographics.

However, in the U.S., one can see in Figure 6 that a majority of accountholders prefer physical banking channels for one reason or another.

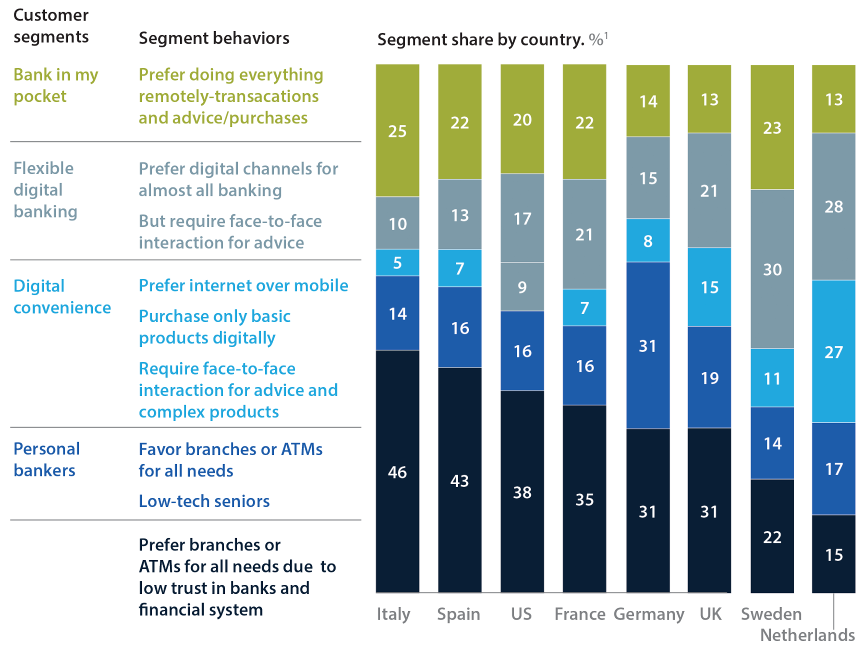

Figure 6: McKinsey 2016 Retail Banking Multichannel Survey; Finalta Digital and Multichannel Survey

However, simultaneously, we have to acknowledge that consumer interactions with banking institutions are more channel-fluid than ever before and mobile banking is emerging as a preferred channel. This means that a majority of consumers want the convenience of both self-service and in-person service from their financial institution. For many banking transactions, having a foot in both worlds is relatively easy, but not when it comes to depositing cash. Consequently, having access to a full-featured, self-service depository channel is critical if your institution has to close the value circle for remote account access. From a cost and distribution perspective, the best channel to provide that vital link for cash deposits is the remote ATM.

Remote ATMs are defined as those ATMs that do not reside at a financial institution's branch. When compared to a branch-based ATM, remote ATMs in convenient, neutral retail locations that offer full-service banking provide a number of benefits including:

- Access to a geographically dispersed, broad network that is typically closer to customers than a branch network
- Placement with prominent, trusted retail brands in prime locations that are often unavailable to a financial institution should it want to build its own network
- Cost-effective in terms of capital deployment and operating expenditure as transactions move from the teller line to the remote ATM
- Faster entry for new market expansion and growth in existing markets with the ability to ramp up deposit-taking in weeks versus the months or years it takes to build a network

While the benefits of a distributed deposit-taking ATM network are clear, how a financial institution deploys that network is critical. In the 'own' versus 'lease' scenario, accessing ATMs owned by a trusted third-party is the favored path chosen by many financial institutions.

Conclusion

Throughout this paper, we have demonstrated that consumers regularly have a need to deposit cash and checks into their banking account. These use cases include activities and payments that span a wide range of business and consumer activity, representing many millions of items to be deposited each year, across all economic groups throughout the country.

Providing this kind of always-on, surcharge-free deposit access through an automated, remote deposit-enabled ATM is not just the purview of digitally-competitive banks–it is available to any institution's requirement to address their customer's self-service needs.

Earlier, we defined the eco-system of banking channels as including both physical and digital assets. To be competitive and operationally efficient, banks must be able to create a synergy between these channels for modern consumers that expect to have the banking services they need, on demand.

Endnotes

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