

AAA NCNU DMV Payment Acceptance Change Project Charter



Project: DMV Payment Acceptance Change
Executive Sponsor(s): ###
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Date: July 9, 2019

Objective

The objective of the project is to eliminate the acceptance of checks for payment of DMV services, thus reducing the operational time required to accept, process, deposit and reconcile DMV checks. The purpose of this memo is to receive approval to launch this program in 84 Northern California branches.

Total Revenue and Expense Impact

This project is projected to increase revenue by \$1.06MM, save \$481M in FTE expenses, equating to *\$1.54MM annually*.

Problem: Wasted Labor and Member Interaction Time

Transaction and EOD processing time for a checks exceeds all other payment methods by 3 minutes and 40 seconds. With 290,000 checks collected for California DMV services in 2018, MWG is dedicating days of operational time to processing these payments with little benefit to Members. In addition to the time issue, there are numerous opportunities for error in the process, which can lead to financial discrepancies. The following table further quantifies this impact.

Transaction	EOD	Total Time	Discrepancies
Check transaction time exceeds other payment methods by <i>3 minutes</i> .	During the EOD process, the Control Cashier handles each check an additional <i>40 seconds</i> .		We owed almost \$5M to the DMV in 2018 due to check errors.
Equates to an average of <i>40 minutes per day</i> per branch of Team Member time.	Equates to an average of <i>9 minutes per day</i> per branch of Team Member time.	<i>49 minutes per day per branch.</i>	When an error is found in a check at a branch, we are responsible for that payment to the DMV, and are often unsuccessful with recovering payment from the Member.
Overall <i>21 days per year</i> per branch	Overall <i>5 days per year</i> per branch.	Overall 26 days of Team Member time per year per branch.	

Opportunity: Increase Member Interaction

By removing checks as a payment option, Team Members will have more time to inform Members about AAA products and services, resulting in increased awareness of the value of Membership. There is also an opportunity to use the extra time to drive Membership sales and insurance quotes.

Background

In March 2019, MWG launched a pilot program in the Berkeley branch to remove checks as a payment option for DMV services. Since then, the pilot has expanded to 11 other branches. Results to date indicate that Team Members have realized the transaction time savings described above. A number of managers in other branches are interested in joining the pilot.

Goals

We expect this program will result in time savings for our Members and branch Team Members, and we expect to utilize this extra time to gain more face-to-face interaction time with Members and prospects. This will lead to increased Membership and insurance sales, as well as an increase in awareness of our services. This program will also lead to a decrease in accounting errors and discrepancies due to bounced checks.

Project Scope

This program will only affect payment for DMV services in Northern California branches. Analysis of payment types for other branch services is out of scope. Payment for DMV services in other MWG states is out of scope.

Data Analysis

Information and data collected in preparation for this project includes: Member surveys, Branch Manager feedback, data on Transaction/Interchange Fees from 2018, YTD 2019 Membership sales, and time and motion at 5 branches.

Revenue and Expense Impact

Revenue Impact: Lift in Membership Sales	Expense Impact: Full Time Equivalent	Alternate Payment	Expense Impact: Effect on Fees
On average, a branch sells 5 new Primary Memberships, 5 new Associate Memberships, and 4 Membership upgrades per day, a total of 14 sales. With the increased efficiency, we forecast branches to increase their Membership sales by an average of at least 1 per day. Annual Revenue Impact: \$1.06MM annually ¹	FTE expense for the 26 days of saved time per branch totals about \$481M ² annually (equating to 8-9 FTE head count).	Of all DMV transactions: 70% debit card, 17% cash, 13% credit card. 6 of 7 members observed paying with check would transition to debit card. <i>We estimate that 70% to 80% of check users will transition to debit card payment.</i>	We predict an increase of about \$550M annually in Transaction/ Interchange Fees annually. <i>*See Effect on Transaction/Interchange Fees</i>

Branch Management Input

We analyzed feedback from 3 pilot branch managers. Reaction has been overwhelmingly positive. According to ###, the biggest time saver came at the end of each day, as the process of having 2–3 Team Members perform 11-point verification on each check is no longer required. ### stated that this project has solved the large issue of errors and discrepancies due to incorrectly filled out or bounced checks. Management also noted the second choice payment method for members wanting to pay with checks has been primarily debit card and cash.

Member Feedback

Branch management and frontline Team Members have noticed few to no negative member reactions to the payment acceptance change. We noted only six complaints from Member surveys, of which five concerned lack of awareness about the change.

Effect on Transaction/Interchange Fees

The average transaction/interchange fee MWG pays for credit/debit card transactions is about 2.35% (credit) and 0.65% (debit). From our branch visits, we observed that for DMV transactions, 70% were paid with debit card, 17% cash, and 13% credit card. And from Members we witnessed paying with check, 6 of 7 stated that their second choice payment method would be debit card. From the sample of transactions observed, we estimate that at least 70–80% of members paying with check will transition to debit card payment, 10–15% to cash, and 10–15% to credit card. With this assumption, we calculate there to be about a \$550,000 increase in transaction/interchange fees per year.

Next Steps

Action Item	Timing
Deliver Charter for Approval	7/9/19
Send Communication Package to Branch Managers	7/15/19
Host Training Conference Calls with Branch Team Members	Week of 7/29/19
Full Rollout to all California Branches	8/5/19
Present Project Findings and Next Steps	8/7/19

Appendix: Increase in Fees

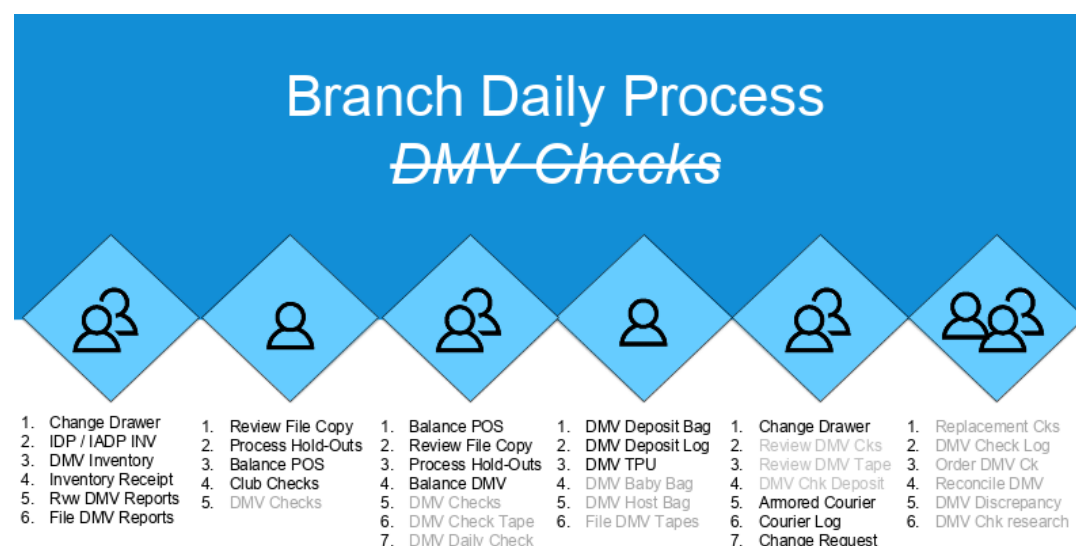
% Transition to Debit	% Transition to Credit	Fees from Debit	Fees from Credit	Total Annual Fee Increase
85.0%	7.5%	\$395,947.43	\$126,309.02	\$522,256.45
80.0%	10.0%	\$372,656.41	\$168,412.03	\$541,068.43
75.0%	12.5%	\$349,365.38	\$210,515.04	\$559,880.42
70.0%	15.0%	\$326,074.35	\$252,618.04	\$578,692.40

Big Picture

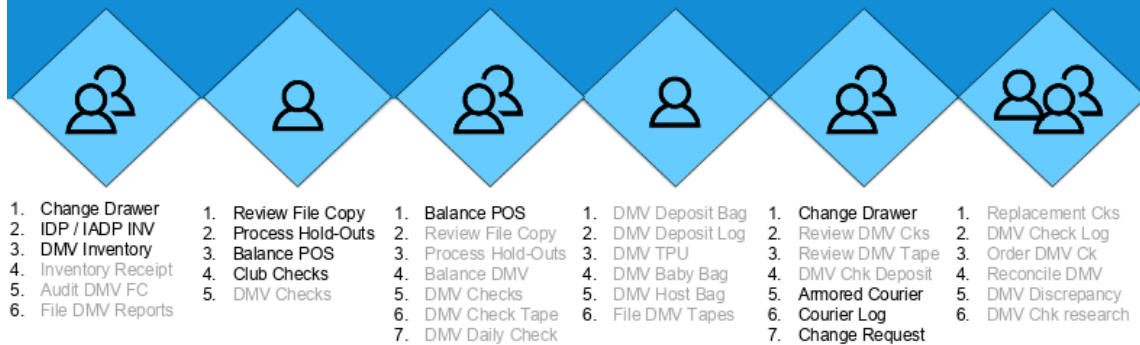
The Payment Acceptance Change Project is part of the Branch End of Day Centralization program. The other component projects are:

- Centralizing DMV Balancing and Review
- Adding Smart Safes

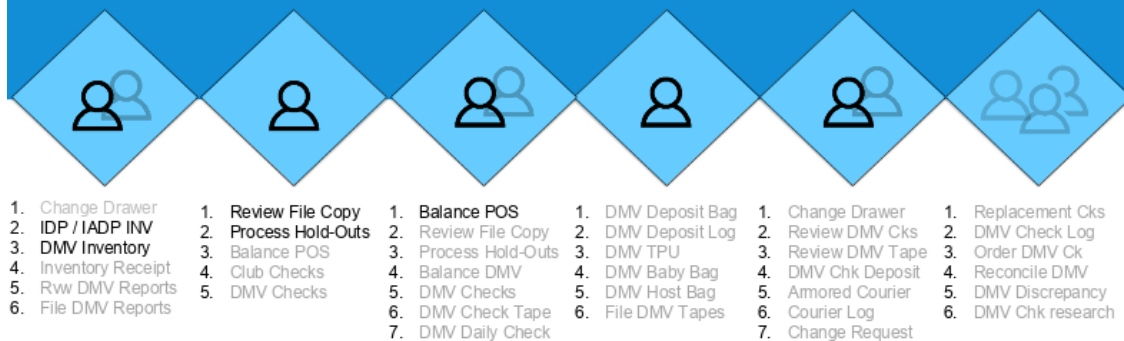
When fully implemented, this program will reduce the amount of time spent by Team Members on administrative tasks by over four hours each day. The following diagrams illustrate the tasks that are eliminated with the addition of each individual project (shown in gray type), the first being the Payment Acceptance Change Project.



Centralizing DMV Balancing & Review



Adding Smart Safes



¹ Based on \$47.63 weighted average Membership price of new and upgraded Primary and Associate Members. Assuming 60% Primary, and 40% Associate.

² Based on \$27.50 weighted average hourly salary and benefits for California MEGs and MEAs.