Special Report: Fintech

Credit Union Management

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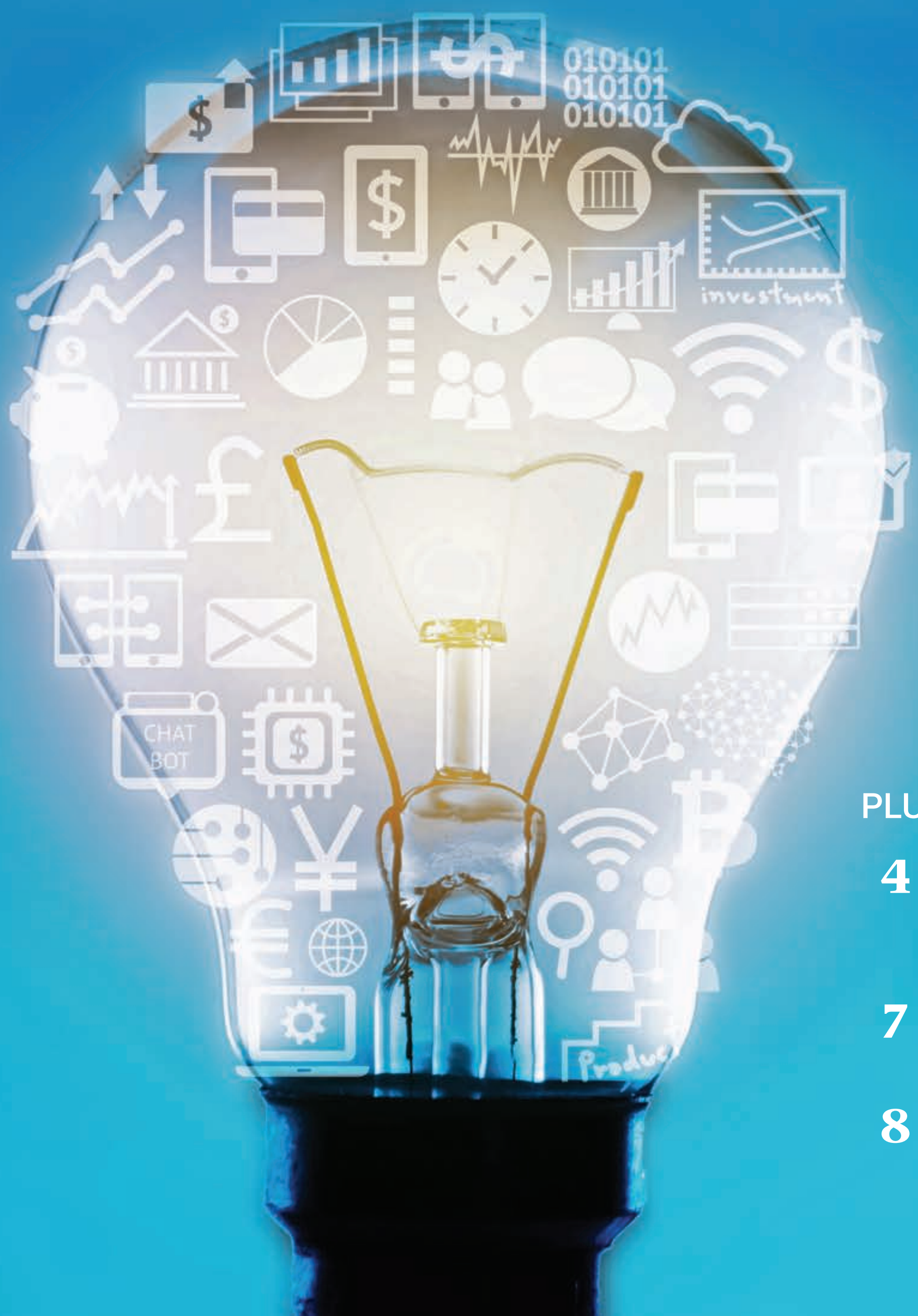

INVESTING IN BRIGHT IDEAS

Why supporting potential innovators may be the right thing for your CU and the movement

PLUS:

Investing *in Fintechs*

PUTTING MONEY INTO INDUSTRY INNOVATORS MIGHT BE RIGHT FOR YOUR CREDIT UNION AND THE MOVEMENT.

BY DIANE FRANKLIN

How can credit unions get in on the fintech phenomenon rather than be left behind? One way is to make strategic investments in such startups to get a say in how the technology is developed as well as potentially attractive returns.

DETERMINING A FINTECH STRATEGY

Given the growing influence of fintechs, CUs need to think about the big picture.

"If your credit union doesn't have a fintech strategy, it certainly needs one," says Kathy Pearson, Ph.D., strategist, authority on decision-making and president/founder of Enterprise Learning Solutions (*elslearning.com*) in Philadelphia.

When CUs consider how to get the capabilities they need, "they should ask themselves, 'Should we organically grow this competency, or should we buy it?'" Pearson advises. "Or you may decide, 'I'm not going to ... invest in this company, but I'm going to partner with them.' That's a less risky proposition, in many cases, and can still meet your objective." The relationship could range from providing capital to an informal app testing partnership, she notes.

Pearson points to several advantages of working with fintech startups, including the ability to influence product development from the ground up. However, investment in fintech startups comes with risks. "There's uncertainty ... because we're not sure which ones are going to be the winners—which ones are going to be around five or 10 years from now," Pearson says. "There are also questions regarding how fintechs are going to be regulated. That's why I would advise credit unions to think in terms of the 'small bet' as opposed to a big investment."

Investing in a fintech company also needs to align with your CU's priorities and risk appetite.

"I think it starts with the board and what your overarching strategic plan is," says Kari Wilfong, chief financial and administrative officer at CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, Calif., a technology leader with 1,200 CU owners. "It's important to identify the critical factors that you look for in an investment opportunity." Whether to invest or just deeply partner depends largely on your strategic drivers.

Is your CU motivated to invest by the innovation and quality services offered by the fintech? Or is the investment driven by the fintech's growth potential? Be aware that as the company gains value, its end game may be to attract a buy-out offer.

This underscores why it's so important to have a clearly defined investment goal, including an exit strategy in case the fintech no longer aligns with the CU's goals. "It's almost like a prenup," Wilfong says. "You need to know what would happen in the event that the company didn't exist any longer."

Another consideration, Wilfong says, is the uniqueness of the product or service the fintech offers. "Can you get the technology from somewhere else? If you're trying to create a unique experience, it's important to invest in ... organizations that can deliver that," Wilfong says.

When narrowing down their investment options, many CUs would be wise to turn to outside experts who can help evaluate the viability of a particular choice. "You want to make sure you understand what the true value of the organization is, and there are a lot of companies that can help you with that piece," Wilfong explains.

"Not every credit union can afford to invest in a fintech, so the way we look at it is that we're not only helping out [our] CU, but we're also helping out all the credit unions."

– Scott Frost

Once a decision has been made to invest, Wilfong stresses that the CU has to ensure a strong relationship with the fintech: "Make sure you have ongoing representation to determine directionally if the company continues to be in alignment with your goals."

A FRUITFUL RELATIONSHIP

Investing in a fintech startup has gone well for $1.1 billion Collins Community Credit Union (*collinscu.org*) in Cedar Rapids, Iowa. The CU has previously participated in fintech investments as part of a group funded by several CUs, but just recently made its first direct investment—in LenderClose (*lenderclose.com*), Des Moines, Iowa, which offers a digital lending platform designed to empower local lenders and improve back-office efficiencies.

"We thought it was wise for credit unions to do what the bigger banks have been doing for quite some time, and that is invest in companies that could create and refine the technology for us rather than trying do to it on our own," reports Scott Frost, chief lending officer.

Thanks to this investment, Collins Community CU has been able to influence product development decisions at the firm.

Frost says, "I have the ability to go to [the owners]—and I have already done so—to say, 'I'm looking at this particular product, and here's what I want it to do. Do you think it's possible?'

"You have the ability to invest in these incubators for technology," he adds, "and if it pans out, you're able to continue your investment and possibly increase it so you don't lose that technology to one of the big banks, which commonly come in and buy these companies out."

PARTNERING VERSUS INVESTING

First Entertainment Credit Union (*firstent.org*), Hollywood, Calif., has exercised caution when it comes to investing in fintech firms. Dan Kinne, director/information services, affirms that the $1.5 billion CU is exploring the possibility of fintech investment to maintain its technological edge. "We would get the benefits of all the R&D that goes into this technology," he notes.

But Kinne admits concern about making the leap. "We've been a little reluctant on venturing into fintech startups, because down the road, they may face some regulatory compliance issues," he explains. "There are a lot of new technologies—with fintech payment systems, for instance—that are really compelling, ... but we are taking a bit of a conservative approach until we see what happens on the regulatory front."

Instead, First Entertainment CU has developed deep partnerships without making an actual capital investment. The CU has, for example, implemented the Laserfiche enterprise content management system (*laserfiche.com*) by partnering with Millennial Vision Inc. (*mviusa.com*), Salt Lake City, a value-added reseller.

The Laserfiche/MVi product suite "has all the traditional imaging features, plus a sophisticated feature set including automated workflow, e-forms, etc. This product set is what integrates our corporate environment," Kinne says. He has found MVi, with its 20-plus years in the industry, to be a stable and reputable "wrapper" for fintech, providing additional solutions necessary for financial institutions.

"We liked what MVi brought to the table in terms of being very experienced working with credit unions," says Kinne. "MVi was a very good fit for us. They've become one of our premier business partners ... . We really value the relationship, and our organization has flourished with it."

BENEFITTING THE INDUSTRY

Credit unions that invest in fintechs not only help themselves but also other CUs, in keeping with the movement's "people helping people" philosophy. "Not every credit union can afford to invest in a fintech, so the way we look at it is that we're not only helping out Collins Community CU, but we're also helping out all the credit unions that LenderClose works with," Frost says.

"As one of the larger credit unions ..., we think it's important to invest in fintechs and help develop technology for the credit union space as a whole. That way, the technology will continue to be available to the smaller credit unions that otherwise couldn't afford to develop it on their own."

Diane Franklin *is a freelance writer based in Missouri.*

MORE ON FINTECH

Fearing Fintech Disruptors? *(cues.org/0117fearing)*

Fintech Competition Update *(cues.org/082818skybox)*

Fintech's Best Value: Fresh Ideas *(cues.org/051518skybox)*

CEO/Executive Team Network, Nov. 5-7, Nashville, Tenn. *(cues.org/cnet)*

3 Powerful Reasons *to Invest in AI Today*

WHILE 2018 IS QUICKLY BEING DUBBED "THE YEAR OF AI," BY ALL INDICATORS, FINTECH'S LATEST PHENOMENON IS JUST GETTING STARTED.

BY CO-OP FINANCIAL SERVICES

According to the International Data Corporation (*idc.com*), global spending on cognitive and artificial intelligence systems will reach $19.1 billion in 2018, an increase of 54.2 percent over 2017 levels. By 2021, AI spending is expected to grow to $52.2 billion.

Gartner (*gartner.com*) predicts that in 2021, "AI augmentation will generate $2.9 trillion in business value and recover 6.2 billion hours of worker productivity." By 2022, one in every five workers engaged in mostly non-routine tasks will rely on AI to do a job.

While these and other projections speak volumes about AI's vast untapped potential, the question for credit unions remains the same: How can the technology unleash opportunities for us?

Here are three compelling reasons to invest in artificial intelligence and machine learning today.

1. PERSONALIZED PRODUCTS AND SERVICES

The more we know about members, the better we can serve them. AI technologies allow credit unions to access both internal and external data,including publicly available information from social media feeds that tell us exactly who our members are. The ability to build richer, more complex profiles of members allows us to customize products and services in ways that better reflect their needs.

2. 24/7 MEMBER SERVICE

AI-driven systems hold tremendous potential for improving member service. In fact, bots are already being deployed throughout the credit union industry to answer questions and deliver services around the clock, providing unprecedented access to members and much-needed relief to call centers.

3. BETTER SECURITY

Fraud losses and false positives cost credit unions dearly. By applying advanced data mining techniques in high-performance computational environments, artificial intelligence allows us to take a more predictive approach to fraud detection, one that yields more precise results faster, and a more seamless member experience overall.

COOPER HELPS WITH FRAUD

CO-OP Financial Services has made its own investment in the AI and machine learning space with the launch of COOPER, an advanced data-driven machine learning platform.

AI-driven systems hold tremendous potential for improving member service.

As the data-driven "brain" inside CO-OP, COOPER will ingest and process data on our members and transactions happening within the CO-OP ecosystem in order to predict, prevent and adapt to complex fraud patterns. Eventually, we see COOPER being more than a security tool. The system will eventually yield the breadth of data needed to help credit unions serve members more intelligently, holistically and personally.

Ultimately, member relationships are built one interaction at a time. AI promises to bring a wealth of data to our fingertips, giving us a truly unique opportunity to make every member touchpoint count.

CUES Supplier member CO-OP Financial Services (co-opfs.org)*, Rancho Cucamonga, Calif., helps your credit union leverage the latest technology and insights to strengthen member connections and propel growth. It does this by uniting innovative thinkers with deep experience in the credit union and payments industries to incite progressive ideas built around consumers' financial needs. The result is a continually evolving portfolio of seamless and secure solutions designed to help your credit union reach both top-of-wallet and top- of-mind status.*

COOPER

PREDICT, PREVENT AND ADAPT TO FRAUD TRENDS LIKE NEVER BEFORE

With billions of transactions processed every year, payments are becoming increasingly sophisticated. But as payments evolve, so do fraudsters and fraud attacks. COOPER is an advanced, data-driven platform that helps credit unions detect and fight fraud faster than ever before. COOPER works behind the scenes to analyze your members' transactions and spending patterns and provide alerts on suspicious activity. By using machine learning, COOPER will adapt and react to evolving fraud trends as well as provide a 360° view of your members.

Discover how COOPER can help you fight fraud and improve the member experience.
Visit **CO-OPfs.org/cooper** or contact **solutions@coop.org**

CO-OP FINANCIAL SERVICES

Enterprise Content Management and Document Imaging Solutions

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Authorized Reseller

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Transform daily operations with powerful and easy-to-implement ECM Software.

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Automated Document Tracking with MVi's Docstream program.

Integrated Remote Deposit and Teller Check21 solutions.

DocuSign Integration.

WWW.MVIUSA.COM

888-684-6684

Leveraging the Power of a True Enterprise Content Management System.

"The payoff for us has been that we have advanced significantly in areas such as business process improvement, integration with our Core Data Processing System (Symitar) and improved access to all of our documents." Dan Kinne, First Entertainment Credit Union

Knowing the Differences.

Credit Unions who want to succeed in today's digital marketspace must be willing to make changes that are truly transformative in nature to their business. Understanding the differences between Enterprise Content Management Systems (ECM's) and Document Management systems is the first step.

What is an Enterprise Content Management System?

An ECM solution combines traditional Imaging and indexing of digital documents along with workflows, automated business processes all while adding automated records retention, DoD 5015.2 compliance and being able to do all of these things across the entire enterprise.

How to make a Successful Digital Transformation Happen in your Credit Union.

Dan Kinne, Director, Business Intelligence for 1.4B First Entertainment Credit Union in Hollywood, CA; describes the following considerations they used in implementing a new ECM system.

Choosing the right platform was the first step towards success, However, having a willingness to change the way you operate is another key to success.

We liked that Laserfiche is acknowledged as a leader in the ECM space as recognized by Gartner Research, infotech and other leading research organizations. We also felt that MVI's experience in the Credit Union industry was of equal importance as well.

Digital Transformation Model

Laserfiche®

This model is a roadmap for transforming your office into a digital workplace. It provides a structured framework for content digitization, process automation, analytics and more.

	1 Digitize Documents	2 Organize Content	3 Automate Processes	4 Streamline Processes	5 Transform Processes
	Create an electronic filing cabinet by converting your documents from paper to digital.	Easily categorize your documents and manage them in a secure, central location.	Improve accountability by digitizing your business processes with easy-to-use electronic forms.	Gain more visibility into your operations and increase the efficiency of cross-functional processes.	Drive innovation by leveraging predictive analytics and insight to transform processes.
KEY PAIN POINTS	• Excessive storage and retrieval costs • Risk of losing important documents • No control over who can access what documents • A paper-heavy office	• Paper-based data entry • No central access to documents • Difficulty finding documents • Redundant work activity	• Time-consuming, manual processes • Inconsistent, disorganized business processes • Lack of data integration between applications • Difficulty complying with regulations	• Cumbersome, complex processes • Lacking data policy oversight • Difficulty determining staffing levels • Minimal process visibility	• Limited analytics for gaining business insight • Processes are not aligned with business needs • Change management costs
REWARDS	• Reduce document storage expenses • Secure critical documents with disaster recovery • Easily manage access to sensitive content • A paperless office	• Minimal data entry and reduced human error • Centralized, secured document access • Enable document collaboration • Fewer duplicate work tasks	• Increased productivity and elimination of manual tasks • Standardized, mapped-out processes • Easy integration between applications • Simplified compliance that addresses regulatory concerns	• Streamlined, simplified business processes • Improved compliance, data oversight and data quality • Ability to reach optimal staffing levels using prescriptive analytics • Increased vision into process health and performance	• Predictive analytics create new ways to improve doing business • Processes are built for growth and to support organizational goals • An agile business ecosystem

First Entertainment Keys To ECM Success with MVI and Laserfiche.

1. Selection of the right ECM solutions for our organization. For us that was Laserfiche and MVi.
2. The value that the ECM provider or VAR has in our industry. We felt that MVi along with Laserfiche brought years of CU experience and also had value added products that would prove useful to us.
3. Realizing that the vendor will become one of your premier business partners and then trusting them to help you achieve the stated goals and objectives.
4. Involving our internal stakeholders in the development of these processes and projects and getting their buy in on each of their projects.
5. Understanding it is a process, you don't get there overnight.

The 5 Stages of Digital Transformation With an ECM Solution.

1. Digitize Documents. The basic digitizing of documents
2. Organize Content. Basic indexing of documents for storage and retrieval.
The following steps require organizations to move the project beyond IT by involving operations and other departments for change to happen.
3. Automate Processes: Creating workflows to manage documents within the ECM.
4. Streamline Processes: Reviewing how internal processeswork and what systems and applications need to work with each other to improve functionality.
5. Transform Processes. The willingness to incorporate changes into their organization and have staff willing to adapt and a desire to change.

SPONSORED CONTENT

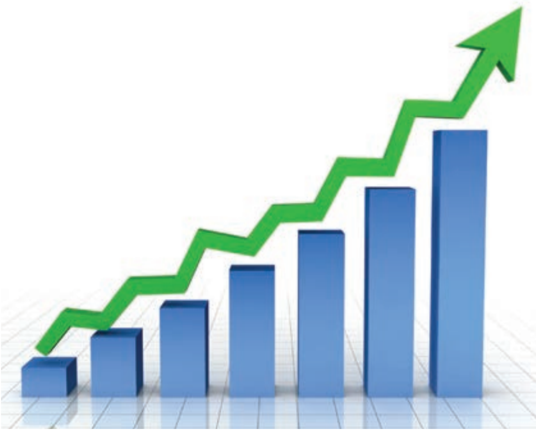
Relevance Through Technology
Strength in Numbers

By Mike Joplin, CEO, CU Lending Cooperative

Let's talk dollars and sense. According to Statista, the total loan volume for personal loans obtained through marketplace lenders this year will be about $120 billion in the United States. How much of this lending activity will your credit union participate in? No need to check with your CFO. We know the answer. Zero.

Now consider this. The average credit union today is about $240 million in assets. On the other hand, year over year for the past 10 years, Bank of America has allocated about $1.5 billion annually just for its advertising spend. Let that sink in for a minute.

Finally, what's your average new member acquisition cost? I can tell you it's probably two to five hundred dollars, give or take. And what do you typically get for that investment? A member that may or may not prove to be profitable.



This all seems kind of bleak doesn't it? There are billions of dollars in marketplace loans being made, and your credit union currently has no way to get a piece of that action. The big banks spend more on advertising annually than the net worth of most credit unions. And your new members are most likely coming in on loss-leader products, forcing you to work your tail off to convert them to profitable members.

Your Edge

But there's one edge you have that no big bank or fintech has: You're a credit union. And that's a game changer.

First of all, as a credit union, you have access to technology that your competitors don't. I'm talking about today's modern technology CUSO.

Not too long ago, tech CUSOs existed mostly to create economies of scale for things like core data processing. Today, new CUSOs are springing up that are nearly indistinguishable from outside fintechs – except that we exist solely to serve the needs of credit unions and members.

CUSO innovators are creating technology solutions that are as good or better than anything available elsewhere on the market, at price points that give your institution a real edge. Credit union technologists have long called technology the great equalizer. Today's tech CUSOs are making it so.

Second, as you well know, credit unions are the very embodiment of the term *coopetition*. Sure, you go head to head with the other credit unions in your area. But you'd gladly put your differences aside to jointly slay the big bank giants.

Taking Advantage

So how do you leverage your credit union-ness to address the three issues I described earlier? I present my CUSO, Credit Union Lending Cooperative (CULC), as the perfect example.

We created CULC on the premise that borrowers want frictionless, immediate online borrowing convenience. They want low-cost checking and higher interest savings accounts and they are gravitating away from traditional banking models to get them. To remain relevant in the current dizzying array of financial service providers, you need to meet today's tech-savvy borrowers where they're looking for loans. We're starting with LendingTree, but that truly is just the start.

Using proprietary technology, we offer CULC as a compelling lending option on LendingTree, then create, book and fund loans and open new share accounts directly for our member credit unions. As more and more credit unions join our lending cooperative, we all realize more and more success together.

If you attempted to get your credit union on LendingTree as an individual lender, you'd spend a lot of money for what would seem like little results. In short, it just wouldn't be worth the effort. But by pooling their resources, our member credit unions can build an online lending juggernaut.

The Finish Line

And what's the end result? Instead of acquiring a new member with a loss-leader product, you bring them in with a very profitable product and then build further profitability from there. To borrow a racing metaphor, CULC is the difference between pole position and the back of the pack when it comes to member profitability. That's why we call CULC a member growth platform instead of a lending platform.

Is CULC the silver bullet for all the monsters at your gate? Probably not. However, I firmly believe that the concepts around which we created CULC – that credit unions must maintain and increase their relevance through the efficient and effective use of technology, and that in the face of mounting competition, credit unions need to support each other like never before – are the concepts that will carry a strong, healthy credit union movement forward into the future.

The CU Lending Cooperative growth platform lets your credit union go head to head with other marketplace lenders, generating new members that are profitable from the very outset. Our one-of-a-kind platforms offers:

- A **nationwide network** of like-minded, tech-savvy credit unions.
- **New loans** for your portfolio.
- Instant membership and deposit **growth**.
- Advanced **API-driven** technology.
- An entirely **cloud-based** solution.
- Instant onboarding to **any core system**.
- Access to **millennials** and other highly desirable demographics.
- Loan default and fraud **loss protection**.
- Full **loan servicing** and hot backup.

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