Special Report: Fintech

Credit Union Management

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FROM DISRUPTORS TO PARTNERS

Three key things that boost CUs' efforts to work successfully with financial technology companies

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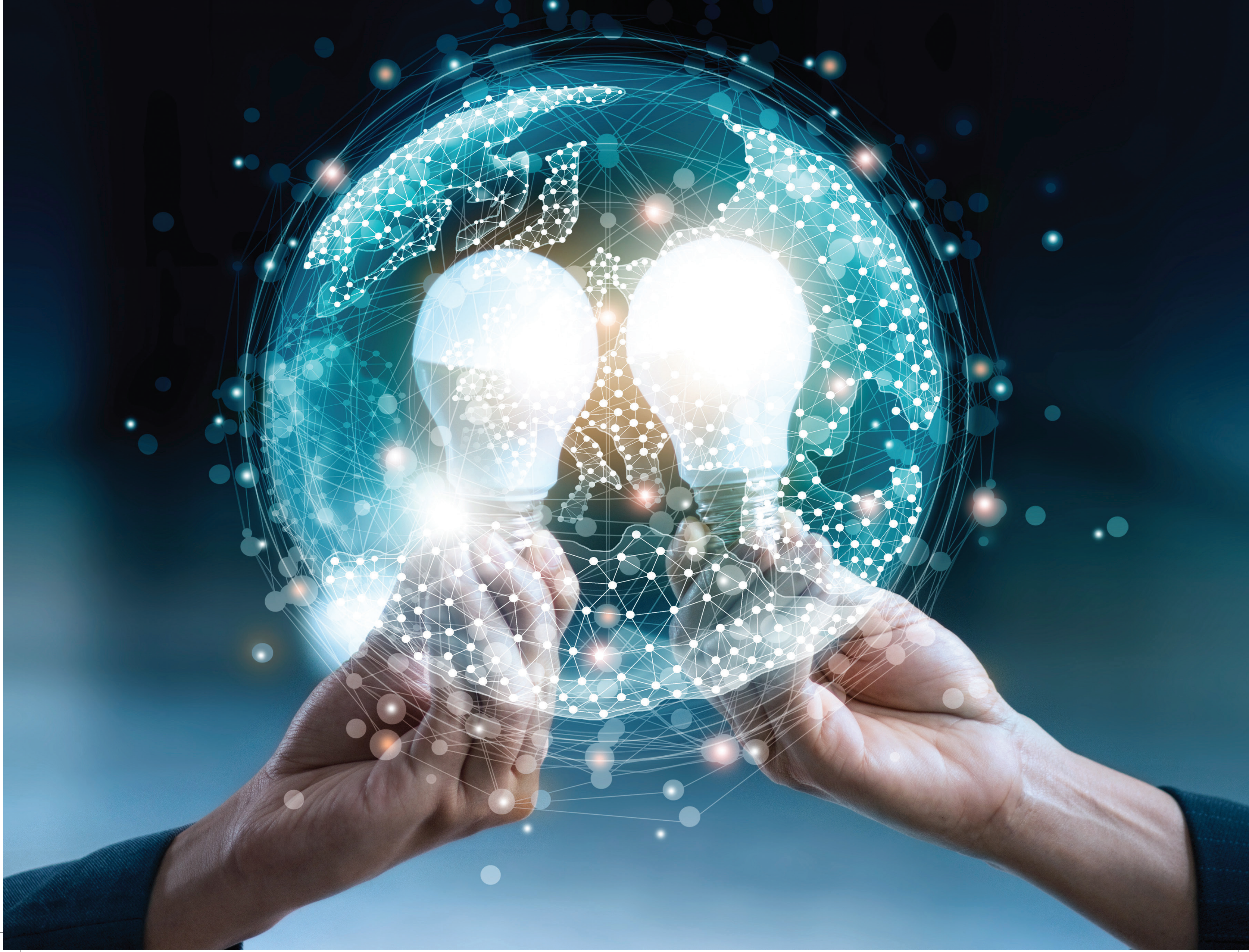

From Disruptors *to Partners*

VETTING, OPEN PLATFORMS AND INFLUENCE IN THE STRATEGIC ROAD MAP BOOST CUs' EFFORTS TO WORK WITH FINANCIAL TECHNOLOGY COMPANIES.

BY STEPHANIE SCHWENN-SEBRING

A 2019 study by CUES strategic provider Cornerstone Advisors (*crnrstone.com*), Scottsdale, Arizona, shows that credit unions have a strong interest in working with fintechs. Of the 145 CUs responding to the survey that formed the basis of "What's Going on in Banking 2019," 60% said fintech partnerships, collaborations and/or investments would be important to them in 2019.

But what are CUs trying to accomplish with their fintech efforts? Three-quarters of respondents said digital account opening was a very important reason for working with a fintech. This was followed by lending and credit, cited as very important by 56% of respondents; payments (54%); and fraud and risk management (42%), according to the free report (*tinyurl.com/cstonerpt2019*).

What will drive success when working with these companies? In this special report, we explore how CUs can thrive with new and diverse fintech partnerships.

NEW VIEW OF VETTING

Successful collaborations between fintechs and credit unions, whatever the focus, require a particular mindset and culture, observes Michael Carter, EVP of SRM (*srmcorp.com*), a CUES Supplier member based in Memphis.

"There has been a material change in how fintechs are seen by financial institutions, with most initially viewed as competitive and disruptive," Carter says. "Certainly, some were. But over time, this view has evolved into seeing fintechs as entities offering the credit union industry a way to innovate quickly."

Working with fintechs, credit unions can enhance their technological offerings for members.

"The footnote to this new approach does not mean fintechs should not be seen as competitors or disruptors," he says. "Assume they are, but partner with them while keeping that in mind always."

Carter says it's essential to approach and vet fintechs differently than traditional partners.

"Any initiative to innovate faster requires a disposition and cultural context within the credit union, one that does not look or feel like anything else within the institution," he explains. "Fintechs, by definition, are startups or early-stage companies. Everything—from their structure to finances—are inherently different and need to be viewed this way."

This is not a reason to cast aside the idea of a

"Assume they are (competitors or disruptors), but partner with them while keeping that in mind always."

– Michael Carter

fintech partnership. But it is evidence that risk mitigation must be conducted differently.

"Thoroughly vetting a fintech is essential for success," Carter stresses. "And it's very different from the typical risk management approach credit unions may use with larger, more established companies."

Vetting components include a non-traditional analysis of fintechs' finances, similar to what a venture capitalist would use. This analysis might include a look at the cash the fintech has available, the burn rate of that cash associated with operations and a deep-dive assessment of the company's technology. Technology components to consider include development methodology, the tech stack's structure, as well as flexibility and configurability.

Carter notes that most credit unions could need a specialist to help them perform the vetting process correctly and objectively. "The cost of engaging this expertise is cheap insurance, particularly when compared to the damage that could be done without help."

CUSOs VETTING FINTECHS

In this world where banks make an enormous investment in digital, credit unions are finding value in working with credit union service organizations to help scale fintech collaboration.

"Fintech partnerships can help credit unions solve unique problems that traditional providers cannot," explains Vladimir Jovanovic, manager of innovation for CUES Supplier Member PSCU (*pscu.com*), a CUSO based in St. Petersburg, Florida. "These may include (everything from) direct partnerships between a credit union and fintech for money management or P2P services to newly formed CUSOs, such as CU Payz," Jovanovic adds. "These were born from the need for credit unions and fintech providers to grow their business models together."

Deepening the point of being better together, the *Credit Union Innovation Playbook*, a collaboration of PYMNTS.com and PSCU (*tinyurl.com/pscuinnplay*), found that 81.3% of credit union members noted "trust in their financial institution was the key reason they chose a particular credit union as a banking partner." Moreover, 55.8% of credit union members said "they would not switch from a credit union to a fintech because they have less trust in these brands." The takeaway, says Jovanovic, is that there is an immense opportunity for partnerships, done wisely.

CUs need to ensure that a CUSO they're working with to secure a fintech connection has performed a rigorous and detailed evaluation of any fintech partnership. The evaluation should include maturity of the solution, the technology itself and how the offering would address the CU's needs, challenges and opportunities.

"In 2017, for example, PSCU was the first CUSO to partner with the Mastercard Start Path Global program (*startpath.com*)," Jovanovic says. This partnership helped to fast-track credit unions' fintech involvement, with success reliant upon PSCU's evaluation process.

"By partnering with a CUSO that understands a credit union's needs, a CUSO can vet various fintech companies while delivering solutions," he concludes. "And, in turn, credit unions can gain the competitive advantage members desire."

DIFFERENTIATION AND PERSONALIZATION

In our "do-it-for-me" society, technology has become an agent of change, and fintechs key players in making that change happen.

When it comes to "financial services, consumers are demanding a more personalized, engaging payment experience," observes Fran Duggan, CEO of CUES Supplier member Payrailz (*payrailz.com*), Glastonbury, Connecticut, a digital payments company and partner in a new payments CUSO, CU Payz. "They also want solutions that are intuitively predictive and proactive."

Using AI and machine learning to leverage member data, Payrailz enables member credit unions to provide more personalized digital payment options or, as Duggan calls them, "engaging payment experiences."

CU Payz was formed this summer by Payrailz in conjunction with CUSOs MDC (*membersdevelopment.com*) and Constellation Digital Partners (*constellation.coop*), plus six founding credit union member-owners.

Credit unions can differentiate their members' journey with these types of fintech partnerships, according to CUES member John Carew, SVP/strategy and product management for $2.5 billion Georgia's Own Credit Union (*georgiasown.org*), Atlanta, a founding member of CU Payz.

"Through CU Payz, we now have access to a suite of next-generation digital payment products to leapfrog the competition," Carew explains. "These include digital payments and money movement transfers through multiple channels, as well as consumer and business bill-pay, account funding and more."

People want solutions, not complexity, he asserts. They want to save time and get things done, which requires credit unions to have more flexibility than some tech providers have offered in the past—and fintechs like CU Payz offer as a matter of course.

"When you align with a trusted fintech, you can help your credit union take control of the member experience," he emphasizes. "For us, it's a proactive payments platform through CU Payz, to actively predict future payment needs and deliver an exceptional payment solution. It's our key to differentiation and enables us to simplify our members' lives."

Members "don't want to think about which 'rail' their payment is moving on," Carew continues. "With an open API (application programming interface) platform like Payrailz, we gain tremendous flexibility ... and a way to attract and retain members.

"As credit unions, we need these next-generation products to compete—both with other financial institutions and non-traditional tech offerings," Carew adds. "Success also requires collaboration on strategic technology investments with fintech companies, as well

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>
> – Vincent Pugliese

MORE ON FINTECH

Lending Perspectives: Winning Against Fintechs Will Require Speed (*cumanagement.com/0819lending*)

How to Evaluate a Fintech Company (*cumanagement.com/0819how*)

Souped-Up Tech: Digital Strategy in the Fintech Era (*cumanagement.com/0619souped*)

as leveraging our collective influence through equity ownership."

OPEN CORE OPENS OPTIONS

A decade ago, most credit unions relied on core banking systems to provide special features. But now, many apps and solutions come from third-party vendors, according to Vincent Pugliese, SVP/general manager/U.S. retail & lending for Finastra (*finastra.com*), Lake Mary, Florida. Still, the core is important—in particular having an open core that integrates well with other products.

"By leveraging an open (core) platform for innovation, these institutions can collaborate with fintechs for access to technology-driven solutions," Pugliese explains. "Markets are also opening, not only through Finastra's foundation of applications and APIs but also our acquisition of the fintech Malauzai last year."

To illustrate, Vons Credit Union, a division of $615 million Certified Federal Credit Union (*certifiedfed.com*), El Monte, California, began its journey into "financial technology" with Malauzai (*malauzai.com*), now wholly owned by Finastra, in 2013.

"As a team, we debated the value of getting remote deposit capabilities," says CUES member James Tomasso, the credit union's CIO. "We even wondered if checks were going to be a thing in the future. But based on API (pick-and-play) capabilities giving us versatility and additional choices, we decided to partner with Malauzai for RDC."

Fast forward to 2019: Check deposits have not gone away, and RDC is the credit union's most popular mobile function, averaging 4,800 transactions monthly.

Tomasso notes that he, along with several other credit union representatives, serves on Malauzai's executive council. The members of the council provide input and stay entrenched in its strategic growth road map.

Partnerships with fintechs like Malauzai enable credit unions to remain competitive, says Tomasso. "For us, it's critical to have a highly rated app; our current rating is 4.9 out of five stars from 1,400 responses. Our app's rating not only serves as a relationship-builder but also a competitive advantage. Conversely, if the rating were low, it would be a detriment, since our app serves a similar purpose (growth, branding, service and member retention) as brick-and-mortar branches. And being a Southern California credit union with just nine branches, we must rely heavily on the reliability and functionality of our app."

When assessing a fintech, Tomasso underscores that it must meet industry regulations. "This is where a partnership ... is essential," he says. "Together, you can explore the fintech's growth road map and ensure compliance is part of it. Involve your compliance officer in the fintech selection as well and ensure that it meets SSAE 16, SSAE 18 and SOC guidelines. Also determine that as credit union priorities realign, you retain a voice.

"Finally, whatever fintech you choose, ensure it can do everything," says Tomasso. "For example, a fintech may own only a portion of the software (as Malauzai does for us), but it should also be able to collaborate with other fintechs. Let the fintech serve as a liaison with other fintech services you may require in the future. Let them vet and offer these as part of an overall fintech package."

Going back to the Cornerstone Advisors report that opened this article, well over half of credit unions thought working with fintechs would be important to them in this year that's rapidly coming to a close. While no one knows what the future will bring, it seems likely that good vetting, open platforms and maintaining some say in the strategic road map will continue to benefit credit unions working with fintechs in 2020 and beyond.

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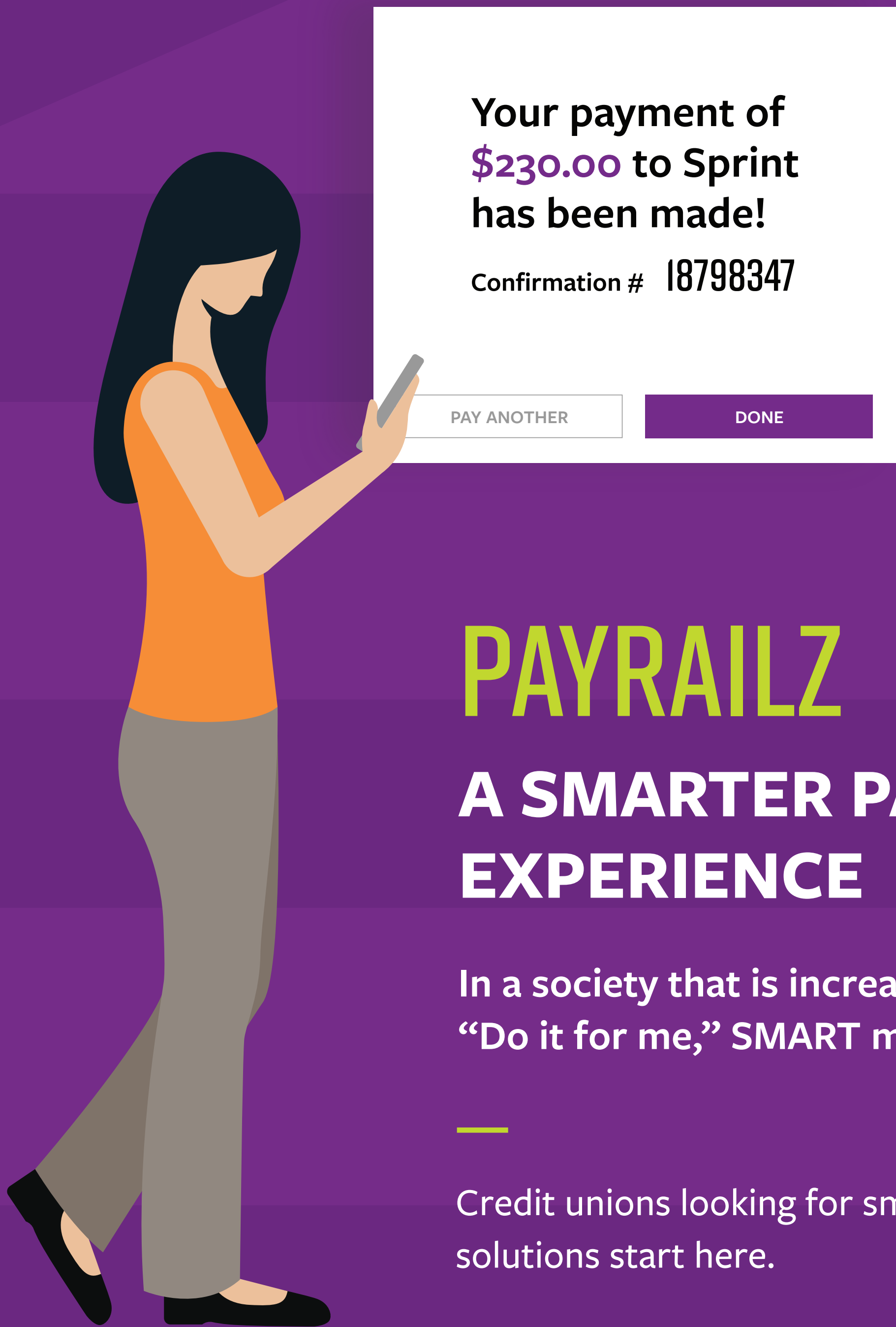

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Leaning In: Credit Unions and the Fintech Revolution

By Jeff Chambers, President, Lumin Digital

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To compete and succeed in this ever-evolving and changing financial marketplace, credit unions must continue to push themselves to think and act differently. Fintech companies across the payments industry are continuing to influence consumers' preferences and financial decisions, in turn impacting the way credit unions, banks and other financial institutions deliver services and offerings. For credit unions, to not only keep up in the fintech space but to capture the opportunities these changes provide, will first require understanding the trends in the market landscape and how those changes are shifting member preferences. Here are some jarring examples of the changing marketplace and consumer expectations:

- According to a December 2018 study by Javelin Research & Strategy, consumers are interacting with their financial providers through digital channels three times as frequently as they are in-branch
- Sixty-nine percent of consumers do not understand compound interest (ValuePenguin) and more than 78% live paycheck to paycheck (CareerBuilder), pointing to a population base that is less savvy when it comes to their personal finances
- More than 87% of millennials do not know what a credit union is and nearly 45% feel credit unions are less focused on digital than larger banks, according to a May 2019 article by Credit Union Journal
- Findings from a January 2018 Epsilon report indicate personalization is extremely important to 90% of consumers

To keep pace with audience needs and preferences, credit unions must focus on building digital experiences that address these market shifts and continue to provide guidance and value. Specific considerations include:

Extend personal relationships to online channels

One of the major reasons members have been attracted to credit unions is because they are made to feel like they are more than just a number. Yet, positioning themselves as valued financial advisors is often easier with in-branch interactions or even phone calls. However, creating digital experiences that feel friendly and helpful, while still offering access to the offerings and capabilities members expect, is very possible. This allows a credit union's digital experience to become an extension of its brand by treating members with the same values they have come to expect from their trusted financial partner.

Combine personalization and education

Consumers today expect personalization, and credit unions have a unique opportunity to leverage this expectation to their advantage. Credit union offerings should support a member's understanding of his or her financial choices in a personalized way. Personalization can be achieved through many channels and does not always need to be overt. Google Maps and Waze, for example, are two companies with mobile apps that seamlessly utilize personalization to make a user's experience more simplified and streamlined without necessarily calling attention to the information they are collecting and using to make this happen. Combining personalization and education is an extremely powerful tool credit unions can use to help stay on par with big banks, fintechs and other providers.

Leverage experts and best practices

Fintech funding rose 120% since 2017, according to Bloomberg, giving fintech companies ample resources to invest in new technologies and advancements to better provide consumers with the services and offerings they expect. Fintechs are currently seeing success in three main areas: personal lending, digital money management and person-to-person (P2P) payments. Credit unions should evaluate competitor offerings and consider experimenting with these new products and services to determine if a more formal partnership might address credit union challenges and member needs.

Credit unions are poised to not only offer personalization and education to their members, but can also utilize partnerships with select fintechs to further their offerings to better meet shifting consumer needs and expectations – quicker than they might be able to on their own. All signs point to fintechs being here to stay. Learning to embrace and work alongside them, while tapping into fintechs' technologies and best practices, will help credit unions stay relevant and better compete with big banks and other financial institutions and cement their relationship as members' trusted banking partner.

Jeff Chambers has an extensive background in the banking and credit union industries. Prior to Lumin Digital, he served as COO of Alkami Technology and Vice President of Global Product Management of ACI Worldwide. Lumin Digital, a PSCU company, provides members of PSCU Owner credit unions with a tightly integrated and customized experience that rivals the offerings available from the big banks.

Greater TEXAS Federal & Aggieland Credit Union Select Malauzai, a Finastra Company, to Empower Them with Innovative Solutions

Goals

Greater TEXAS Federal Credit Union and Aggieland Credit Union had a unique problem. They were seeking a vendor that would be able to move quickly and progressively. They also needed to represent their two unique brands, while maintaining a single core connection. This was critical in their decision to choose Fusion Digital Banking and to work with Malauzai, a Finastra company.

At over $1.2 billion in assets and with over 24,000 members, they needed to provide "The Ultimate Customer Experience: Generosity, Loyalty, Integrity, and Community." However, with 15 banking centers across 11 different communities, it was also imperative that they represent their unique brands effectively.

Low digital adoption rates, competitive pressures and legacy systems with limited functionality created a need for a new digital banking experience.

The Decision

The original mission of Greater TEXAS FCU was to allow its members to review accounts and conduct basic transactions whenever and wherever they may be. With the emergence of new technologies, they had to consider many factors and variables when selecting vendors and technologies.

The ability to work with multiple third-party vendors seamlessly was another factor that was important to selecting Fusion Digital Banking. The credit union believes that the more capabilities they can include in their digital solution, the easier and more convenient for both the institution and their growing member base.

Enabling Members With a Best-in-Class Banking Experience

Since launching in 2012, the partnership with Fusion Digital Banking has allowed the credit union to extend both brands' banking experience to members through a continuously innovative solution that enables them to nimbly add features and functionality as needed. Credit unions cite a strong mobile banking experience as a primary factor in their high retention rates, which allows members to conduct business no matter their location.

The Results

- Considered one of the leaders in the credit union market making them the primary financial institution (PFI) of choice to their eligible members
- **48%** increase in usage of mobile remote deposit capture
- **125%** increase in mobile users from legacy mobile banking platform
- **38%** mobile adoption across all of its DDA accounts
- **43%** mobile to online banking user ratio

Caitlin O'Connor is solution marketing lead for Fusion Digital Banking for Finastra (finastra.com), Lake Mary, FL. Finastra provides the industry's leading fully integrated core, lending payments and digital engagement platform.