

CEO Report

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News Notes

Fryzel confirmed

Approximately six months after being named by President Bush to head the NCUA, Michael Fryzel was confirmed by the Senate and officially named to the post by Bush. Former Chairman JoAnn Johnson's term ran out last August. Johnson agreed to serve until her replacement could assume the chairmanship. According to the NCUA, Fryzel will take the oath of office and start work by the end of July.

Before joining the NCUA, Fryzel ran a law firm that specialized in financial, regulatory, and real estate law. He also

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IN THE SPOTLIGHT : prize-based savings

Save and win

Will scaled up jackpots, prize-based saving bring new members, better financial habits to Michigan CUs?

Compound interest can be a powerful financial tool, but for many low- to moderate-income earners, its benefits are elusive. LMI earners tend to come from families with little to no history of saving. They themselves may have had no exposure to sound financial strategy. For whatever the reason, though, it's clear that when it comes to financial planning, LMI earners clearly prefer an alternate method: gambling.

Forget 401Ks, mutual funds, or savings accounts. A large percentage of LMI earners consider gambling a perfectly viable option for planning for the future. In fact, many consider it *the most viable option*. Many American consumers – LMI earners in particular – would sooner risk their income for a small chance at a large payout than sock that money away. University of Maryland economist Melissa Kearney found that, in 2003, Americans spent nearly \$80 billion on legalized forms of gambling.

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CUBTRRA passes the House

Second time a charm for reg relief bill

In late June, the House passed the Credit Union, Bank, and Thrift Regulatory Relief Act of 2008 by voice vote. Introduced by CU booster Rep. Paul Kanjorski (D-Pa.), the bill would amend the Federal Credit Union Act in several ways. This was the second attempt, after CURRA (see *CEO Report*, May 5, 2008) to push through a stripped-down version of the more comprehensive Credit Union Regulatory Improvements

Act. The bill went on to the Senate Committee on Banking, Housing and Urban Affairs.

The differences between CUBTRRA and CURRA are largely cosmetic. They both depart from CURIA in two substantive ways: Neither attempts to raise member business lending caps nor reform prompt corrective action. The CU lobby will have to pursue those industry aims in another bill.

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National Center for
NCCU
CREDIT UNIONS

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and that lower-income households spend a much higher percentage of household income on gambling. This squares with another recent finding: Consumers tend to be overly optimistic about their actual chances of winning.

The trick, then, for any CU looking to help an LMI earner build assets and savings, is to convince them to dump the bad habit – gambling – in favor of the sound, responsible one – saving. Right? Well actually, there may be another strategy. Instead of fighting against the popularity of gambling, CUs could use it to encourage saving instead.

This is the concept behind prize-based savings programs. These programs can vary in the details, but at their most basic level, they combine the thrill – and the low odds – of gambling with the sober benefits of savings accounts. Harvard business professor Peter Tufano thinks that programs like this could help bring the unbanked into the financial industry and incent them to save. His foundation, the D2D Fund

, has partnered with the Filene Institute to bring prize-based savings to American CUs.

Prize-based savings is not a new idea. The programs have been around since at least 1694, when British citizens could buy into the “Million Adventure.” This isn’t a long lost idea either. Prize-based savings programs currently exist in over 20 countries around the world. Some of the bigger programs include the U.K.’s Premium Bond program, which the British government has run since 1956 and which counts over one-quarter of all British citizens as bond holders, and a recently founded program in South Africa, which amassed 1.2 billion rand and 750,000 participants in two years. For Americans, however, the idea may seem strange and new. Tufano hopes it can be effective as well.

A typical prize-based savings program might work like this. Rather than risking 100% of the principal, as a hypothetical member might if he bought a lottery ticket, he instead agrees to deposit some money in an account with your CU. If the account were, say, a share account that might

typically offer 1% annual percentage yield, a prize-based share account might instead knock 50 basis points off that APY and use the cost of funds you would be paying on that to fund a jackpot. A member who deposits in that account would then be eligible to win money or goods at regular drawings. This member may be drawn to the possibility of grabbing the jackpot, but at the end of the day, he also ends up with savings.

Prize-based in America

In the U.S., only a handful of CUs have piloted prize-based savings programs. Filene doesn’t track the number of CUs that adopt their ideas, but *The CEO Report* identified six CUs with newly minted prize-based savings programs (see matrix below, prize-based savings by the numbers). Among the various programs there is a fair degree of experimentation. Centra (\$768 million), Tower (\$1.7 billion) and Elga (\$247 million) CUs designed their prize-based accounts as secondary accounts. At Neighborhood (\$254 million) and

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CU prize based savings programs: by the numbers

	Centra CU	CES CU	Elga CU	FORUM CU	Neighborhood CU	Tower CU
Account type	sub share	primary share	sub share	share certificate	primary share	sub share
number of accounts	1,400	*	2,600	595	4,507	*
average balance	\$375	*	\$358	\$1,218	\$902	*
total balances on deposit	\$525,000	*	\$934,728	\$724,710	\$4,065,314	*
months in the market	19	7	10	10	10	*

*data unavailable at press time

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Beehive CU rolls out individualized branch websites

In a novel branch-level branding effort, Beehive CU (\$191 million) recently launched eight unique Web sites for each of their branches ☐, reports Netbanker's Jim Breune. The CU generated eight sites from a single blog template.

Though the branch sites look very similar to one another, they differ in a few significant ways. Each site has its own header, which includes the branch name and an image of the branch. In the text, the name of the branch appears at within generic copy. And each site has its own branch-specific contact info.

Hood's 2020 Blueprint stresses CU-university ties

At NAFCU's annual conference last week, NCUA board member Rodney Hood discussed some early findings from his Blueprint 2020 group. Hood assembled the group to explore strategies for recruiting the next generation of CU executives. The group, which includes professionals from in and around the CU industry, found that CUs should establish stronger partnerships with colleges and universities. Some specific recommendations include:

- internships for college students;
- consulting projects for MBAs;
- participation in career fairs;
- establishing good relations with university career counseling staff;
- and providing LMI CUs with the funds to hire summer interns ☐

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CES (\$111 million) CUs, though, the primary share account is the prize-based account. CES excludes business account holders from the program, but every individual member of the CU participates just by virtue of having an account.

Since prize-based savings programs are as much an experiment in behavioral economics as they are simple financial products, it makes sense that different CUs would experiment with program design. After all, the design of a program may have a significant effect on how members use it. At FORUM CU (\$1.1 billion) in Fishers, Ind., for example, the staffers who designed the program really wanted to inculcate members with new financial habits. Their program definitely reflects this.

In order to join FORUM's program, called the Weekly Five Club ☐, members have to commit to play for three, six, nine, or 12 months. The CU describes the program as a game members can 'play,' but technically, since the CU has made its program a certificate share account, members are purchasing some combination of three-month and one-year certificates. Once a member decides how long he wants to commit, he has to deposit \$25. The minimum deposit thereafter is \$5. What drawings he qualifies for and how often he qualifies depends entirely on his deposit patterns. A member committed for one year who deposits weekly will qualify for the weekly drawing, the monthly drawing, the quarterly drawing, and the yearly drawing. If that member decides to deposit once a month, they'll still qualify for the monthly, quarterly, and yearly drawings but not the weekly.

FORUM's Weekly Five Club

84% of Weekly Five Club players have a checking account with the CU.

Average age of Weekly Five Club players: 42

Average number of services per Weekly Five Club player: 3.78

"We didn't want to put the program out there and let [members] just throw in money," said Kim Walker, FORUM's VP of retail delivery sales. "We're looking for ways to encourage a regular saving habit. We want them to learn to save."

FORUM added a clever wrinkle. The CU doesn't alert members who've won. Members have to check in with the CU for sweepstakes results, and they can only do this in one of three ways. They have to check the Web site, call member services, or call the hotline. The mechanism keeps members checking in with the CU constantly and that gives the CU the opportunity to expose their members to other CU products. "They go to our Web site, and hopefully they find something else that attracts them," said Walker.

Scale it up

In his study, "Saving whilst Gambling," (see sidebar, "Saving or Gambling?" p. 7) Tufano found that customers of the U.K.'s premium bond program did respond positively to higher jackpots ☐. CUs operating programs on their own can't possibly offer the kind of

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massive payout the U.K. government does with its own program. But CUs working in concert could offer a much larger jackpot than any single CU. How sensitive will American CU members be to scaled-up jackpots? We may be about to find out.

Last month, the Center for Financial Services Innovations awarded D2D and the Filene Institute a grant to pilot a multiple-CU project in Michigan. Filene and D2D hope to involve at least six CUs in a single prize-based savings program. The six plus CUs would offer a single annual jackpot between them. With multiple CUs involved in a single program, that program would be able to offer those CUs members much larger jackpots.

The tentative plan for the program, at least for now, is to require deposits in an amount between \$5 and \$25, and to offer a \$100,000 annual prize.

“We were really looking for an opportunity to bring this to scale,” said Maureen Maddox, Filene’s driver of I3 implementation. “This grant really helped us put the staffing and the multi-credit union [structure] into play. Hopefully, we can build on this so it can be rolled out nationally.”

Filene and D2D will be following the Michigan experiment closely, not only to gauge the program’s popularity, but also to see if it attracts new savings. According to Maddox, in the early going, average prize-based account balances have been higher than expected. This may suggest that the programs have attracted CU members with established savings – members who have simply shifted savings from

other CU accounts into the prize-based account. As Filene and D2D experiment with jackpot scale, and as marketing and outreach efforts evolve at the CU level, the programs may start to generate significant new savings. The success of the initiative will depend on it.

“Our goal is to bring new members and new funds into these accounts,” said Maddox. □

Saving or gambling?

Prize-based savings programs combine what some might consider incompatible elements. These programs may turn out to be effective in the U.S., but it may be interesting to consider why. How, exactly, does the impulse to save resonate with the impulse to gamble? In a paper for the Harvard Business School, Tufano set out to answer this question by looking at bond holders in the U.K.’s premium bond program. He wanted to know how they used the bonds. Were they gambling or saving?

What Tufano found is that they’re really doing both. Sales of the bonds correlate positively with rising jackpots, which suggests that consumers see the bonds as a gambling instrument. At the same time, Tufano found that fluctuations in Premium Bond deposits are sensitive to fluctuations in the stock market as well as the relative yield of the bond itself. In other words, consumers clearly view Premium Bonds as one investment product among many as well. He also found, not surprisingly, that the program appeals disproportionately to lower-income households. □

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your disengaged staffers, argues Grubb, or else you’ll end up with more disengaged staff.

Refocus your staff on your service goals every morning.

The hotel requires all staff members to attend an orientation meeting every morning. It uses the orientation meetings as an opportunity to reinforce the good habits the hotel tried to inculcate during new employee orientation. The hotel doesn’t want to give employees any chance to stray from company standards for comportment and engagement, says Grubb. Customers will switch their business if they encounter an indifferent employee. □

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- amends federal banking law to authorize interest-bearing transaction accounts for all businesses;
- amends the Federal Reserve Act, the Home Owners’ Loan Act, and the Federal Deposit Insurance Act to repeal the prohibition against payment of interest on demand deposits; and
- directs the Federal Reserve Board of Governors to collect biennially a sample of specified retail banking services, products provided and fees charged by CUs and all other insured depository institutions. The Fed would then report its findings to Congress. □