

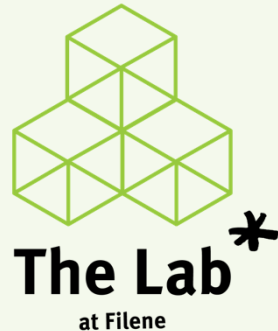
SUMMARY SLIDES

Year Two Lab Results: Vertice AI

Grow Indirect Member Relationships via AI

Megan Freshour, Incubation Director

THE LAB* AT FILENE



The lab* at Filene seeks out innovative solutions and creates capacity for credit unions to rapidly test and implement promising concepts in the marketplace. By leveraging Filene’s cutting-edge research and engaging the market to identify emerging innovations, Filene’s lab* provides an efficient platform for exploring new products and strategies and implementing solutions to the challenges that matter most.

Each year, the lab* will engage key partners in selecting and executing four to six innovation tests that drive change for credit unions.

Once selected, credit unions participate in a testing approach that answers questions about potential solutions while receiving tools and support to test a unique hypothesis and assess a concept’s desirability, viability, and scalability.

To kick off the second round of tests, the lab* at Filene partnered with Vertice AI as one of seven solutions for the 2024 testing phase.



Vertice AI is a cloud-based interactive solution that leverages AI-driven personalization to help credit unions grow economic participation and reduce churn.

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The Challenge and a Possible Solution

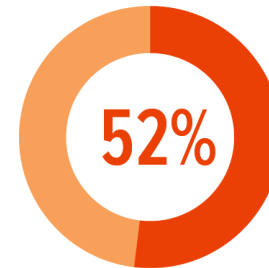
ENGAGING INDIRECT MEMBERS

Building upon the work from our first iteration of testing, the lab* at Filene and its sponsors in 2023 focused on addressing a critical issue for credit unions: **converting indirect lending participants into long-term, engaged members**

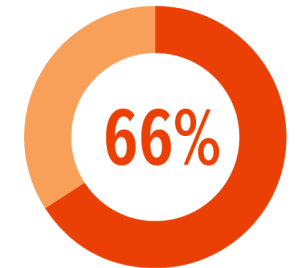
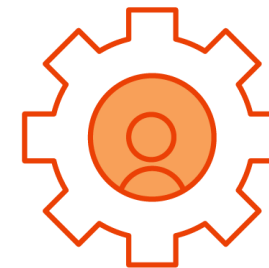
While indirect lending can effectively boost loan volumes, many indirect borrowers remain disconnected from the broader credit union membership because they are often unaware of their membership or the range of financial services available to them.

The indirect lending landscape continues to evolve, influenced by shifting consumer preferences and technological advancements. In fact, **66% of customers now want their financial institution to offer experiences** more like Amazon and Netflix—seamless, personalized, and intuitive. Credit unions, with their strong focus on member relationships, are well-positioned to meet these expectations. By leveraging AI to analyze member data, they can better understand the preferences of indirect borrowers and offer tailored products that foster deeper engagement, helping turn these borrowers into long-term, loyal members.

CONSUMERS EXPECT FINANCIAL INSTITUTIONS TO PERSONALIZE OFFERS



of customers expect companies to **always** personalize offers



of customers expect companies to **understand** their unique needs and expectations

Source: <https://www.cuinsight.com/how-credit-unions-should-prepare-for-the-changing-landscape-of-indirect-lending/>

VERTICE AI

Vertice AI is a cloud-based, interactive solution that empowers credit unions to know, grow, and measure their memberships at scale.

By leveraging a series of heuristic and predictive algorithms, Vertice AI quantifies each member's economic engagement with the credit union. It then offers recommendations to credit union leaders and marketing teams on where growth opportunities exist. The platform simplifies complex tasks such as normalizing member data, calculating each member's propensity to grow or churn, and evaluating the effectiveness of marketing efforts.

To address the challenge of converting indirect borrowers into long-term, engaged members, testers in the lab* at Filene used Vertice AI's solution to identify and prioritize the most promising indirect members for conversion.



VERTICE AI

HOW IT WORKS

1. Credit union securely shares anonymized data for all members.
2. Vertice AI analyzes the data, assigning propensity scores to all members for all products and services offered by a credit union. High propensity scores indicate members with desire and intent for a particular product.
3. Vertice AI predictive models can recommend campaign audiences for product growth or risk of churn to automate member engagement campaigns
4. Vertice AI collects updated member data weekly to analyze adoption rates of the targeted product(s).
5. Through an intuitive web interface, credit unions can easily visualize and interact with the data, enabling them to track member participation and measure campaign success with flexible, powerful visualization tools.

For the sake of the pilot, credit unions were limited to recommending one deposit product with direct links for indirect members to apply online.

JANE DOE



About

Member Tenure: 5 Years

Current Products: Checking, Savings

Indicators

Viewed Auto Rates on Website

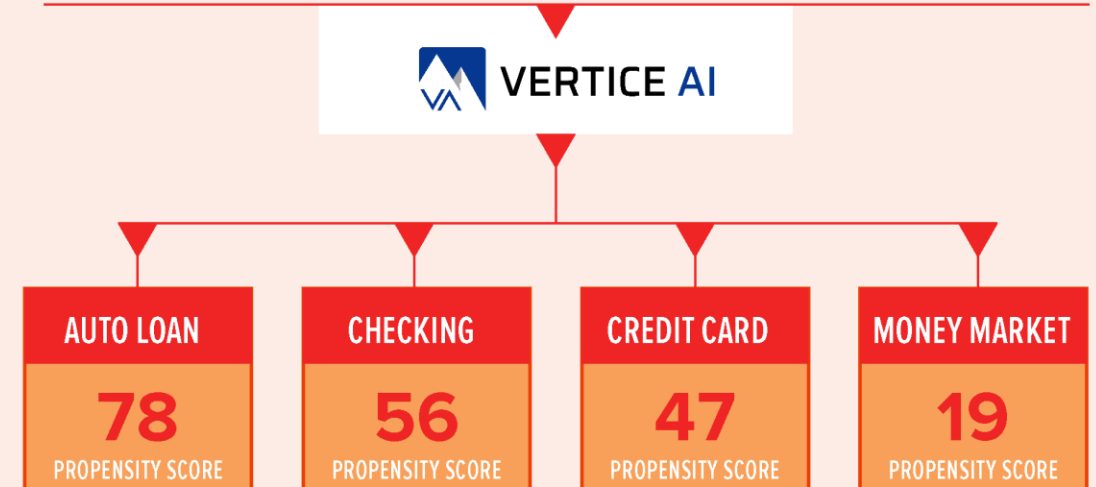
Final Mortgage Payment Next Year

Behavioral

Member Status: Active

Checking Status: Heavy (9+ trans.)

Channel Preference: Digital Banking



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Vertice AI: Credit Union Pilot Overview

VERTICE AI



FOUR RESEARCH QUESTIONS

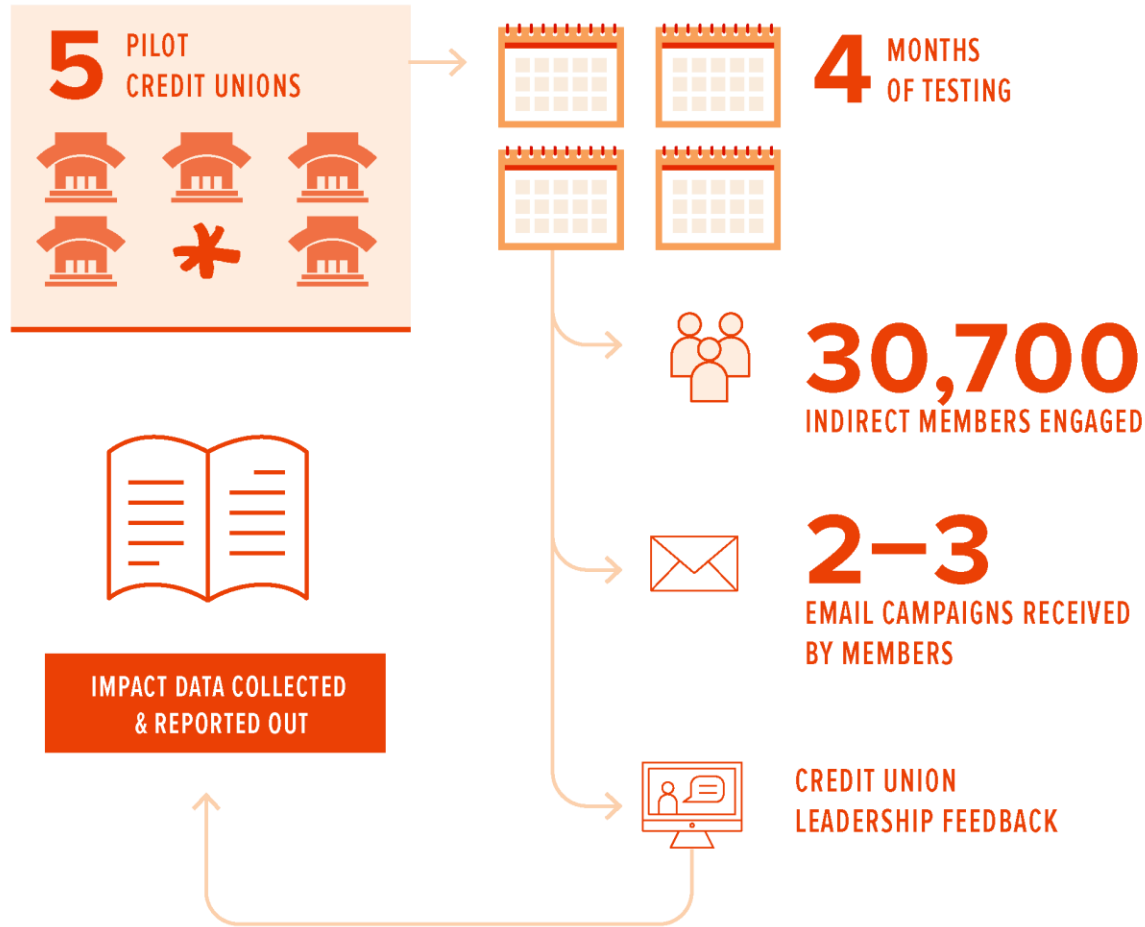


- How can credit unions **leverage AI to devise effective strategies** that facilitate the seamless conversion of indirect members into engaged and active members?
- How does Vertice AI's solution specifically **impact the conversion of indirect credit union members**, particularly in terms of new deposit product activations and initial balances for targeted products?
- To what extent does using Vertice AI's solution to **optimize member-focused marketing campaigns** contribute to improving credit unions' indirect membership conversion rates?
- How do needs and interests differ **across different member segments**?

TEST APPROACH

Filene examined Vertice AI to understand the desirability, feasibility, and viability for credit unions to offer **more ways to grow indirect memberships beyond their initial auto loan.**

HOW WE TESTED



RESEARCH DESIGN FLOWCHART

- Filene engaged indirect members and staff at five geographically diverse credit unions of varying asset sizes across the US. The research was conducted in two stages:
 - **STAGE 1:** Indirect members with the highest propensity scores received 2–3 targeted marketing email campaigns, each offering a deposit product.
 - **STAGE 2:** In collaboration with Vertice AI, email engagement was analyzed. Additionally, product conversions were tracked by propensity groups.
- Filene also surveyed and interviewed credit union leadership and staff engaged in the pilot to gather qualitative feedback on the use of Vertice AI in their operations.

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Credit Union Results

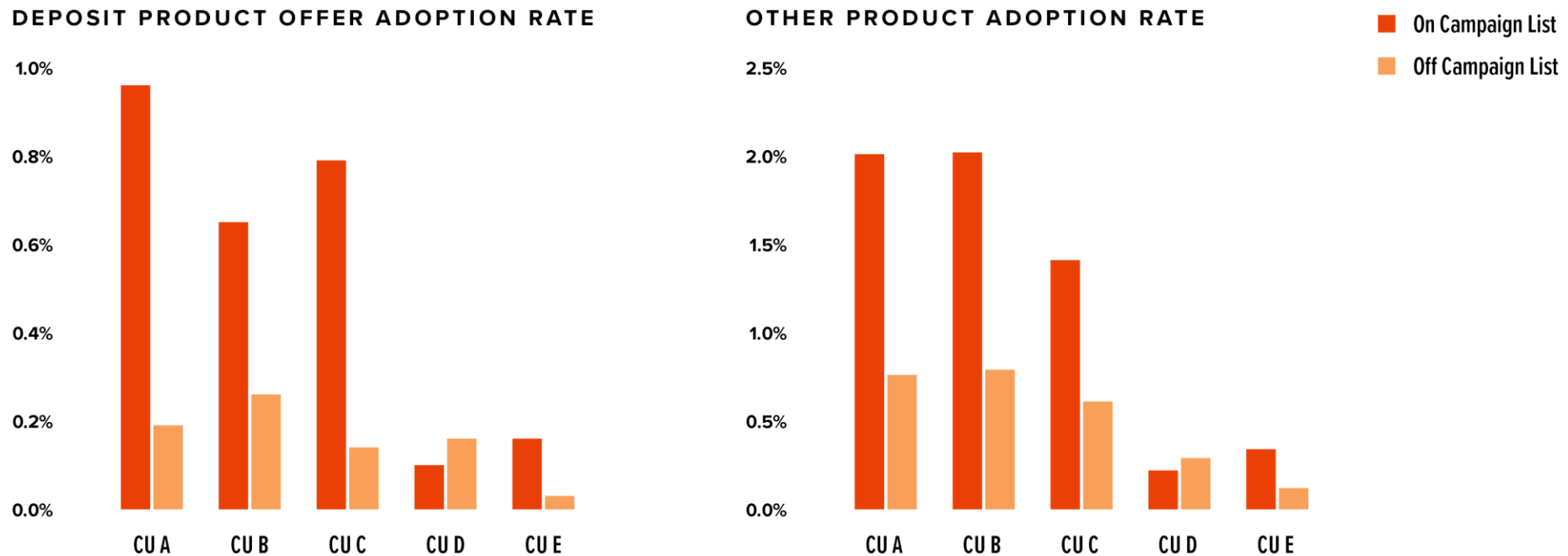
INITIAL DATA OBSERVATIONS

During the data collection phase, several insights emerged in relation to indirect members:

- **Application Data as a Critical Data Set:** For indirect members, application data is the most valuable due to their limited or nonexistent transactional activity. **The more comprehensive the historical application data provided, the stronger the predictive models will be.**
- **Standardizing Vehicle and Application Data:** Vehicle and application data can often be inconsistent and messy. By utilizing solutions like Vertice AI, credit unions can standardize this data across vehicle types, makes, and models, allowing them to quantify assets in a consistent and reliable way.
- **Challenges with Data Gaps:** Gaps in data make it difficult to leverage effective predictive models for indirect members, a challenge not as common with the direct member base. This learning is captured in Vertice AI models which account for missing attributes/values, improving the accuracy of predictions for indirect members.
- **Active vs. Inactive Indirect Members:** Credit unions handle active and inactive indirect accounts in different ways. It's important to **establish clear guidelines for managing these accounts** once loans are paid off. For example, communication through email or phone calls may reactivate an inactive member. Before sending data, credit unions may want to remove inactive accounts or confirm active/inactive status guidelines with third-party data vendors to ensure the accuracy.

INDIRECT MEMBER PRODUCT CONVERSION RATE

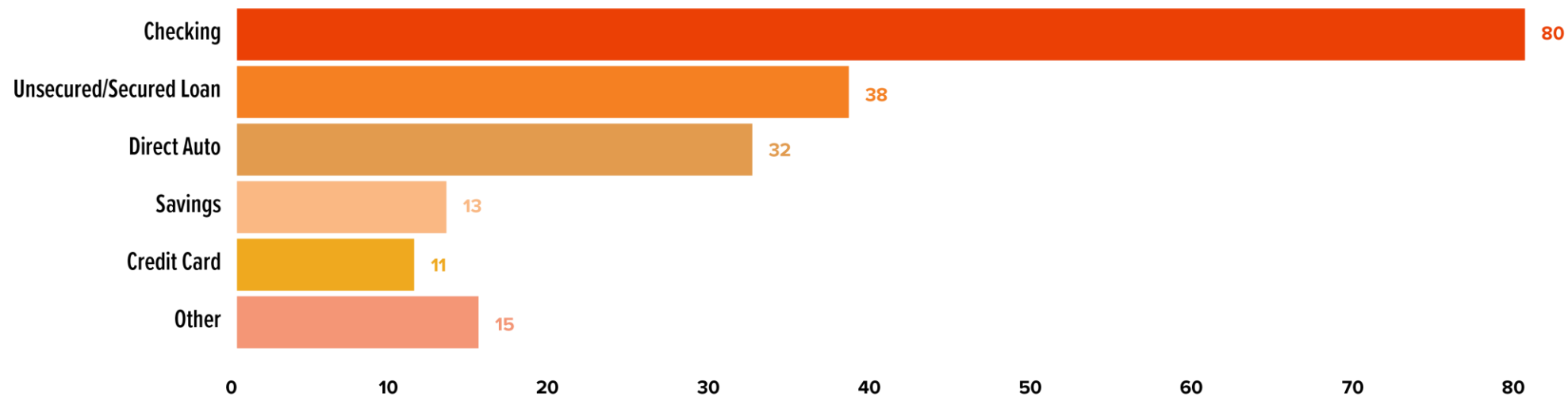
Each credit union selected a deposit product, either a savings or checking account, to offer. **Indirect members who were specifically targeted had a 241% higher conversion rate** for these products compared to those who were not targeted. Additionally, they demonstrated a 133% higher conversion rate for other, non-advertised products.



PRODUCTS CONVERTED

The marketing offer for the selected deposit product drove engagement, even when members chose products other than the one promoted. On average, targeted members contributed **42% more in loans** (approximately **\$1 million**) and **284% more in deposits** (around **\$420,000**) compared to non-targeted members, based on dollars added per targeted member.

PRODUCT BREAKDOWN

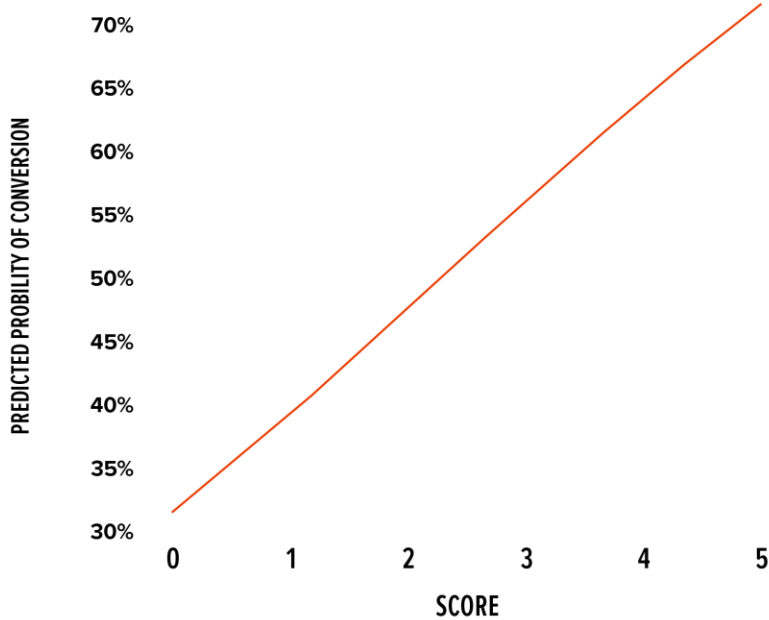


Participating credit unions were limited to offering one deposit product. In a formal partnership, credit unions would have the flexibility to adjust their campaigns based on the initial results of product offerings.

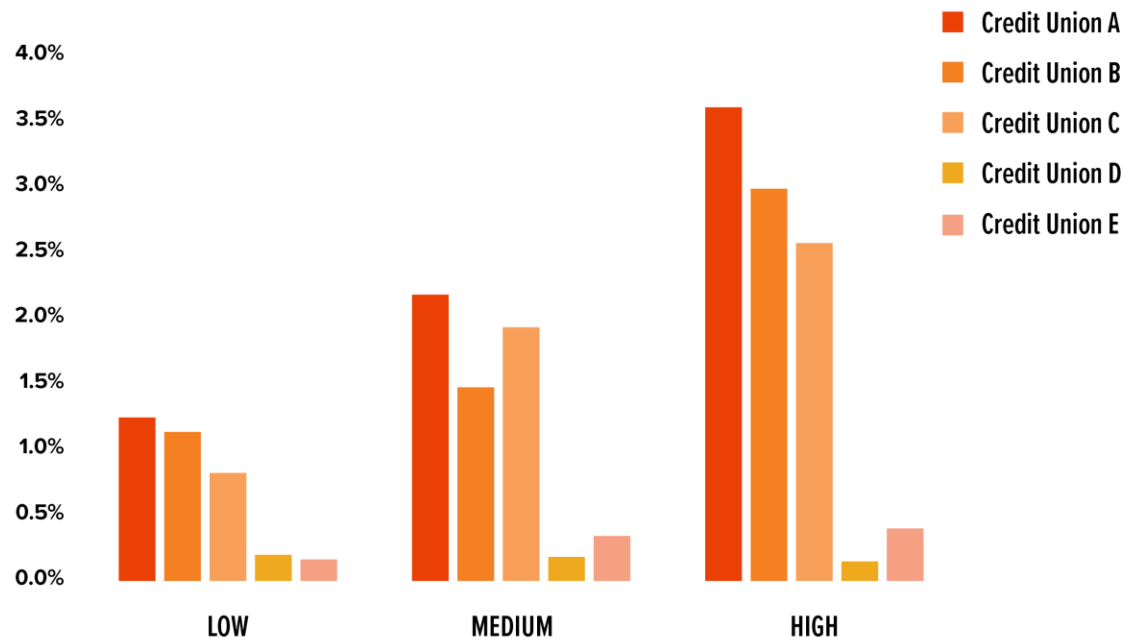
CORRELATION BETWEEN PROPENSITY SCORES & CONVERSION RATES

Overall, the data revealed a direct correlation between higher propensity scores and conversion rates, demonstrating that **Vertice AI models are effective in predicting which indirect members are more likely to convert to direct members**. However, one credit union emerged as an outlier, indicating some variation in model effectiveness across institutions. Additionally, analysis showed that as propensity scores increase, there is a corresponding rise in the average number of new products adopted per indirect member.

SCORE VS. PREDICTED PROBABILITY OF CONVERSION FOR TARGETED INDIRECT MEMBERS



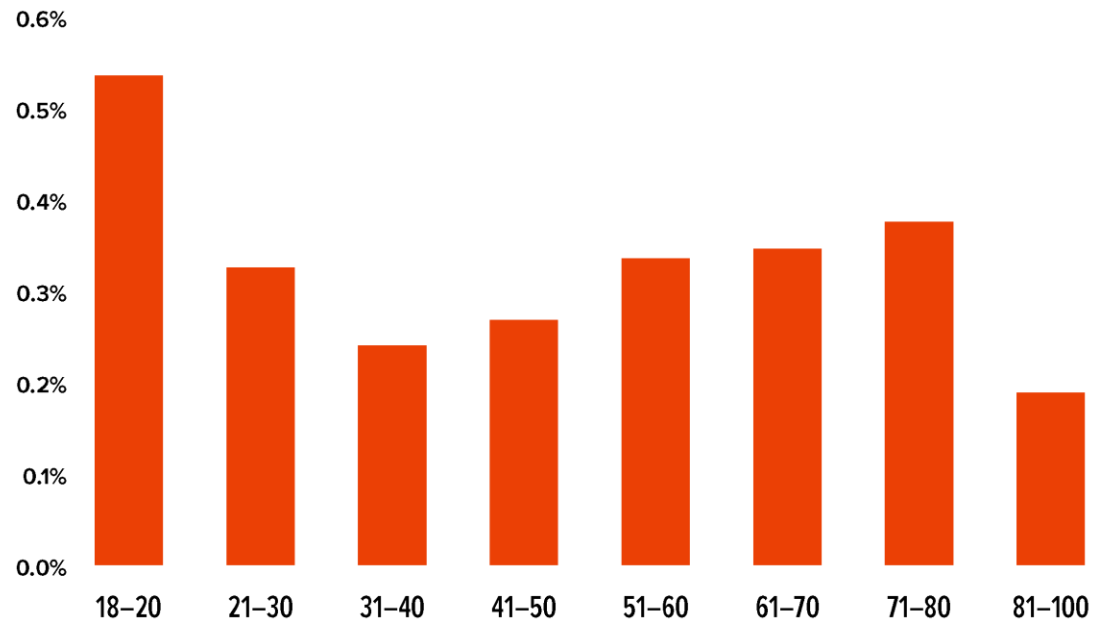
CONVERSION RATE BY PROPENSITY GROUP



CONVERSION RATE BY AGE

Albeit a smaller group, younger members had the highest conversion rates.

CONVERSION RATE (%) BY AGE GROUP



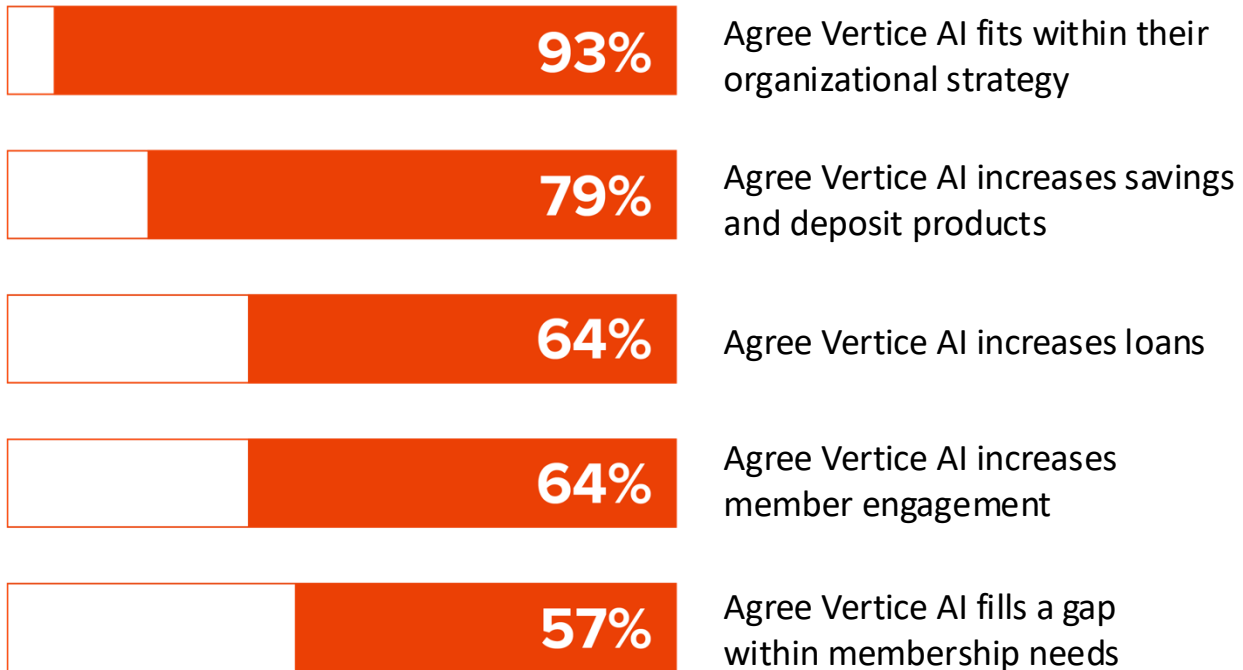
“

Recognizing that younger members had higher conversion rates allows us to fine-tune our marketing strategies. It highlights the need for targeted efforts that resonate with younger demographics, potentially leading to greater engagement and long-term membership growth.

”

LEADERSHIP & STAFF FEEDBACK

Credit union leadership and staff engaged in the pilot were surveyed to provide feedback on the use of Vertice AI in their operations.



“

I believe the predictive modeling capability that Vertice AI provides **fills a major gap in our current data program.**

”

“

I think Vertice AI has a great model that **supports a lot of our goals at the credit union**, and they do it in a way that I haven't found any other vendor to do it thus far. It's very easy to understand for anyone employed at the CU, and they break the results down in a digestible fashion.

”

LEADERSHIP FEEDBACK

Participants indicated that extending the pilot period would lead to a more comprehensive evaluation of the platform's effectiveness in engaging indirect members. Additionally, they **provided several recommendations for potential improvements:**

- 1. Integrate Transaction Data:** Incorporating transaction data into the predictive model could significantly enhance the accuracy and effectiveness of targeting.
- 2. Expand Focus Beyond Indirect Membership:** Limiting the showcase group to indirect members reduces marketability due to limited data. Expanding the target group will better demonstrate Vertice AI's full potential.
- 3. Test Multiple Products:** Based on initial testing, Vertice AI shows stronger performance with lending products compared to deposits. Future testing should include both a deposit and a lending product to compare conversion rates across targeted lists for a more comprehensive analysis.

“

While targeting indirect members as a singular use case may not be feasible, **investing in the full solution would unlock the potential to automate outreach**, making it a valuable, low-effort opportunity to cultivate engagement from this group.

”

Note: Feedback is based on the pilot structure, where participating credit unions had limited customization options and were required to focus on indirect members to address the initial problem. Vertice AI offers broader capabilities in formal partnerships, including direct member engagement and integration of transactional data.

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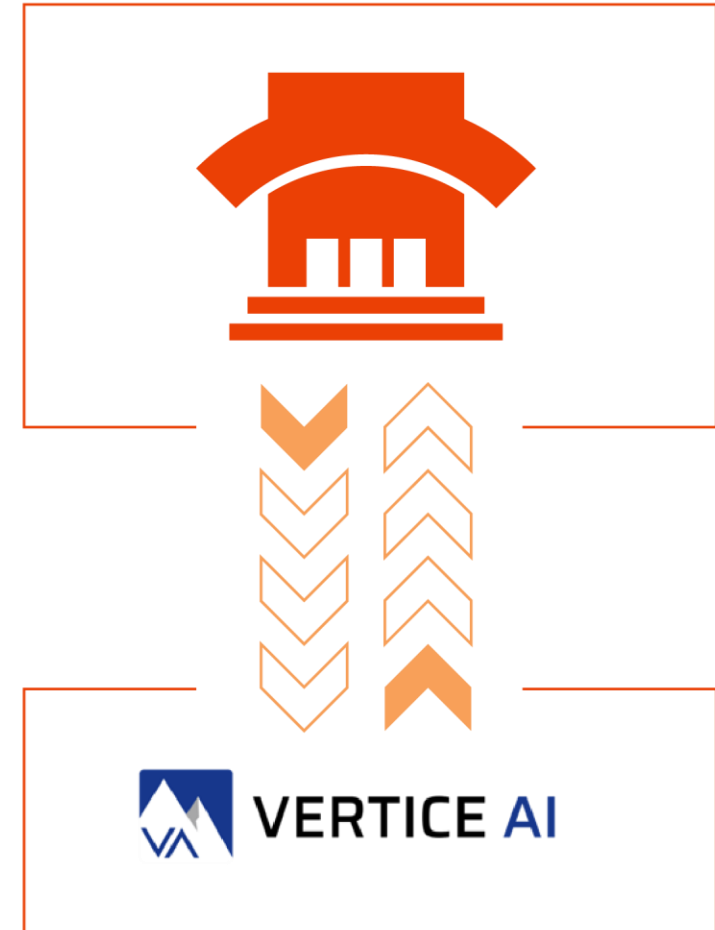
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Conclusions

OPPORTUNITY FOR PARTNERSHIP

Vertice AI, or similar products, are worth considering to grow share of wallet and positively impact the credit union's financial performance. These tools not only enhance financial outcomes but have the potential to improve member experience and loyalty. **Based on credit union feedback, Vertice AI can:**

- Place an intuitive and actionable workflow to leverage AI for member-centric engagement.
- Transition members, who may initially only use limited services, into fully engaged members to improve their experience and the credit union's revenue.
- Collect valuable data on member needs and preferences to inform product development and marketing strategies, enabling personalized campaigns tailored to members.
- Provide a holistic view of the full membership base, offering actionable insights for credit unions.



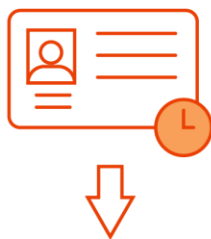
OPPORTUNITY FOR REFINED INDIRECT STRATEGIES

By leveraging a data-driven approach, credit unions can better identify indirect members with a higher likelihood of converting to fully engaged direct members. This allows for **more targeted marketing, increasing engagement and driving growth by focusing on high-potential segments.**

AI offers the ability to analyze large datasets, such as transaction history and digital interactions, enabling personalized engagement strategies. This not only **reduces operational costs but also shortens onboarding times, improving overall member satisfaction.**



OPERATIONAL
COSTS



ONBOARDING
TIME



MEMBER
SATISFACTION



Overall, we observed higher conversion rates, with one notable exception. Our hypothesis is that the outlier credit union already had an indirect lending onboarding campaign in place, actively promoting deposit products.

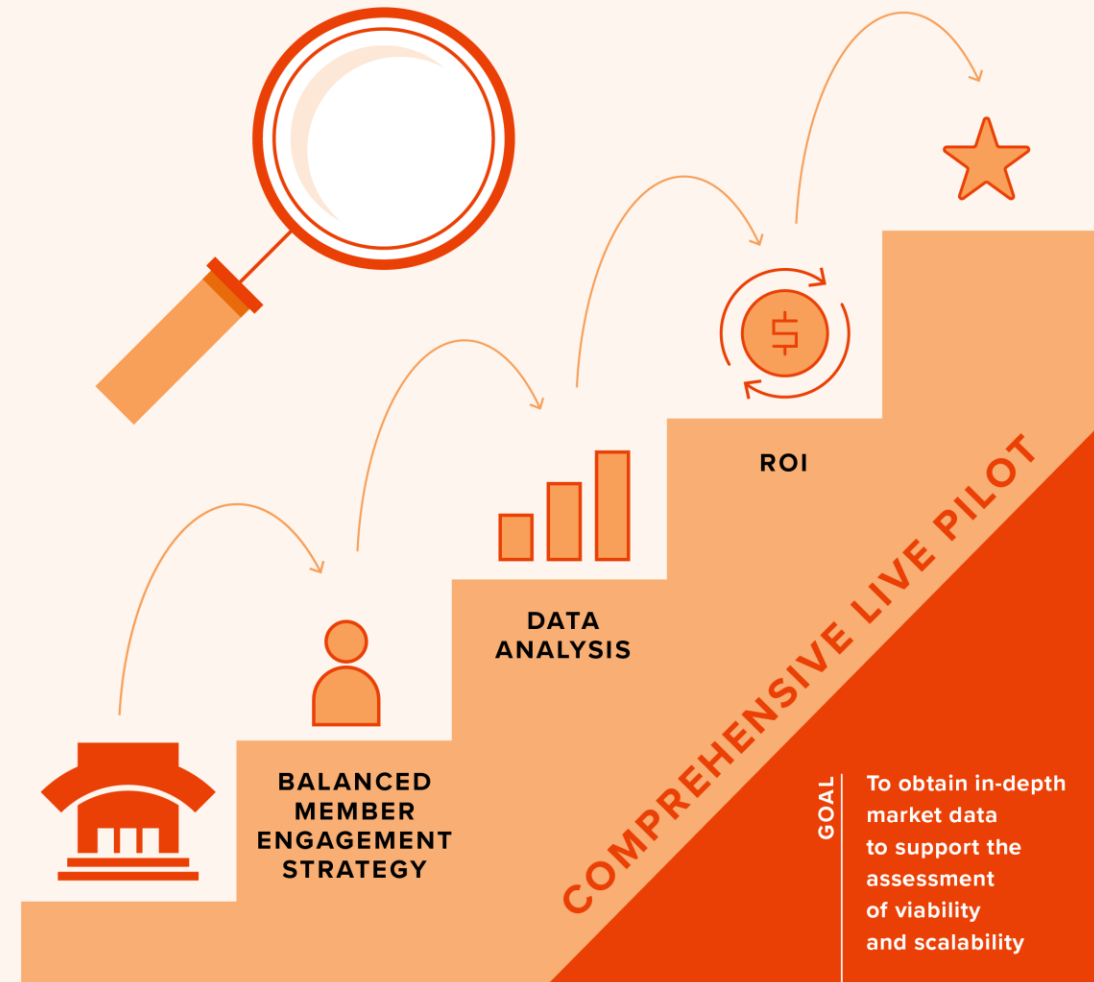
Given that this test focused on indirect members of varying levels of tenure and engagement, this credit union also experienced the highest bounce-back opt-out rates, possibly due to cross-sell campaigns that didn't align with the specific needs of indirect members during onboarding.

This observation isn't fully supported by testing data; however, the other tests suggest that integrating solutions like Vertice AI earlier in the onboarding process may help reduce irrelevant offers, leading to more personalized and timely engagements. By refining the approach from the outset, credit unions can better tailor their campaigns to member needs, enhancing engagement and reducing opt-outs.

NEXT STEPS

For credit unions interested in solutions like Vertice AI, The lab* at Filene recommends launching a comprehensive live pilot to gather additional in-depth market data. The extended pilot should aim to understand:

- **The impact of Vertice AI** in transitioning indirect members to fully engaged credit union members and expanding wallet share among direct members, leveraging its UI dashboard capabilities.
- **The effectiveness of a balanced member engagement strategy**, where AI is used as a broader, data-driven engagement and personalization approach. Rather than focusing exclusively on converting indirect members, this approach includes targeted efforts for direct members that align with overall growth and engagement goals.
- **The return on investment for the credit union**, considering both direct outcomes and indirect benefits such as increased loyalty and the acquisition of qualified leads for new products and services.



THANK YOU

ACKNOWLEDGMENTS

The Filene Research Institute would like to thank **Vertice AI** for its contributions to freely share their concept with us and provided invaluable support throughout the test.



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