



CONCEPT DOCUMENT

CUllaborate

TEAM MEMBERS

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PROBLEM DEFINITION

To survive, credit unions need to attract a steady stream of new, active users to replace revenue that can't be generated through mature relationships with patrons who use fewer income-producing financial services.

No matter what you call them (Gen Y, millennials, digital natives or even Gen Z), this “up-and-coming” next generation of members is important – making up 75 percent of the nation’s workforce in less than a decade. And they expect a flawless digital banking experience that is challenging for any financial institution to deliver. This is especially true for credit unions, whose average size of \$222 million is dwarfed by banks’ average of \$2.84 billion. (In the aggregate, the credit union industry has \$1.31 trillion in assets compared to their bank counterparts, with \$16.78 trillion.)

These figures strongly suggest that credit unions will not be able to attract and effectively serve the next generation of members individually. Even large national financial institutions are struggling to keep pace with fintech innovation, as nonbank competitors are free from burdensome regulatory requirements that both drain resources away from R&D and create high hurdles for product experimentation. Result? According to a survey from Viacom media Networks, 73 percent of millennials say they would be more excited about a new financial offering from a tech company than their own bank.

A decade ago, most Americans were loyal to a primary financial institution, and no one would have wanted to unbundle their financial services. Spreading business across numerous companies and locations was just too inconvenient. Financial institutions became complacent because they were the only game in town and moving accounts was too much work.

Mobile devices are changing the status quo by providing the consumer a one-stop-shop – for just about everything – in the form of a single, handheld device, no matter how many unique businesses are engaged in the process. This is especially true for “up-and-coming” consumers who consistently select brands based on convenience above all else and whose attachment to their mobile devices is well-documented. For example, over 90 percent of millennials have smart phones, which have replaced dozens of other devices for facilitating every day activities such as shopping, gaming, listening to music, financial management, reading books, email, education, social media, and work.

And this generation *needs* a trust partner in financial services: According to the 2012 National Financial Capabilities Study analysis completed by Filene Research Institute, only 8 percent of Americans between the ages of 23-35 answered five financial literacy questions correctly. In the most recent NFCS (2016), millennials answered an average of 2.6 (out of five) questions correctly. This generation is already actively making (often bad) financial decisions that can impact them for the rest of their lives.

The good news is that, according to a 2014 ICBA study, 57 percent of millennials prefer to work with a *locally-owned and operated* community bank (v. a national institution). This preference stems from their distrust of large banks, brought about by the calamitous impact of the bank-driven financial crisis and Great Recession. Furthermore, in addition to having a general spirit of optimism about the future, millennial values align with credit union values such as people helping people, democratic control, and cooperation.

All signs point to tremendous opportunity for credit unions – but only if they band together to offer the technologically-advanced services and user experience desired by the next generation of members.

String Quartet seeks to uncover: *How might credit unions collaborate to reach the next generation of members?*

INNOVATIVE SOLUTION

CUllaborate will combine the services and support of numerous participating credit unions leveraging best-in-class technology to reach the next generation of credit union members with an optimized digital banking experience. Through *collaboration*, credit unions will offer digital-first consumers an unparalleled online experience – from searching, to application, fulfillment and support. Through *collaboration*, credit unions will launch a unified national brand with the power to create awareness and sustain ongoing relevance for the credit union movement in the lives of current and future generations of members. Through *collaboration*, credit unions can reach and serve an enormous segment of the United States population who would otherwise remain disengaged.

CUllaborate is the brand name of an entity and online platform that will give users the impression of doing business with a single, sophisticated financial institution. CUllaborate will be transparent about channeling the services of many credit unions to eliminate the need to shop around, while also assuring users receive the most suitable offers. CUllaborate will provide young consumers with an alternative to undesirable big banks where they feel like a part of a larger movement.

How does it work?

Consumers will learn about CUllaborate through a large-scale marketing campaign, largely driven by social media. Consumers visit the CUllaborate website where they are presented a menu of services, an opportunity to select the features they desire for the products they need, and an online form for collecting basic identifying information.

The CUllaborate platform will use details provided by participating credit unions about their product features to present the top product match(es) to the consumer (from only credit unions she is eligible to join) instantaneously. Once the consumer selects an offer, she submits additional details required by the “providing credit union” (PCU) for membership and product applications, * including data to achieve Know Your Member (KYM) compliance and incorporating e-signatures as needed, which the platform will share digitally with the PCU.

From this point, the PCU will service the product and shares account level information back to the platform, allowing CUllaborate to present aggregated online/mobile banking and statements (across all products the consumer has selected via CUllaborate, no matter how many different credit union providers are involved). CUllaborate members also would have access to all ATMs /ATM networks of the credit unions participating in the program.

Once CUllaborate has collected member information, this data will be stored securely as a user profile in the cloud. It is available when the member returns to the platform for another financial product, streamlining the process for accessing additional services no matter which of the participating credit unions is the provider in each instance. Support will be provided primarily by phone, chat, SMS and on-demand video conferencing hosted by CUllaborate. The CUllaborate platform will automatically direct support inquiries to the right person at the right credit union depending upon which product is involved.

CUllaborate will maintain direct consumer relationships, promoting additional services and offers to members on an ongoing basis. This approach ensures each participating credit union has an ongoing

opportunity to win business, and that members continue to experience fewer limitations in product selection.

Driving all future traffic through CUllaborate also allows the company to fulfill its brand promise to optimize the user experience through deployment of leading-edge technology. This objective will be accomplished by identifying and integrating the best-in-class solutions for every stage of the engagement (including digital banking, account opening, mobile deposit capture, personal financial management, instant loan decisioning, mobile web-conferencing, chatbots and much more). In future years, it will be possible for participating credit unions to leverage these systems for their direct member engagement as well, harvesting additional operational efficiencies from the model.

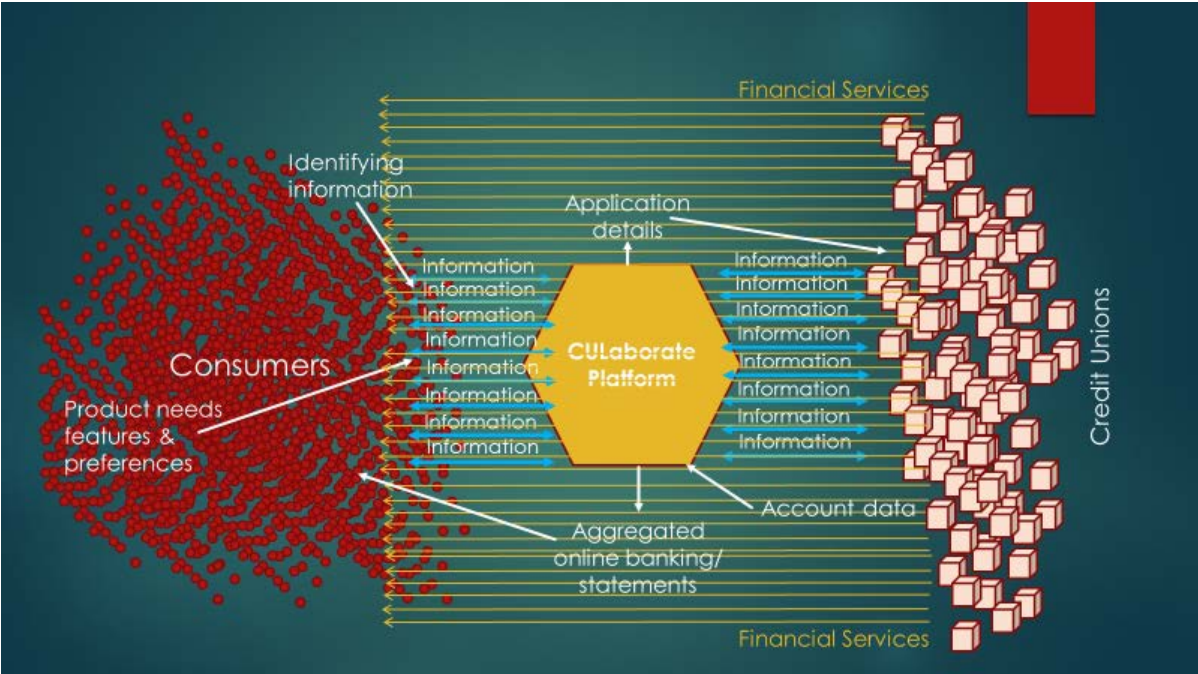
Summary:

String Quartet believes strongly in the value derived from leveraging collaboration and the power of the Internet to expand the availability and quality of services beyond what is offered by a single institution in a single geographic location. CUllaborate credit unions will have the opportunity to serve members who would otherwise be unreachable due to limitations such as geographic footprint, product set, limited budgets and branding – challenges for credit unions of all sizes. CUllaborate will bring to market something that has never been attempted before – a “front office” collaboration that incorporates a *full range* of financial services, cooperatively offered by individual credit unions, to reach and serve a highly-desirable demographic with technologies that would be unavailable to any credit union acting on its own.

*Prior to implementation, CUllaborate would help participating credit unions review all product requirements/forms to streamline and modernize the user experience.

PROTOTYPE

Because CULaborate’s primary innovation is in the unique business model construct, which cannot be tested, String Quartet did not build a prototype. We did conduct two surveys and also circulate a process document for feedback from IT professionals. See below for the visual components of the process document:



TESTING AND RESULTS

String Quartet conducted a survey of consumers about their banking preferences and priorities as well as a group of credit union CEOs about the CUIllaborate concept.

Consumer Survey:

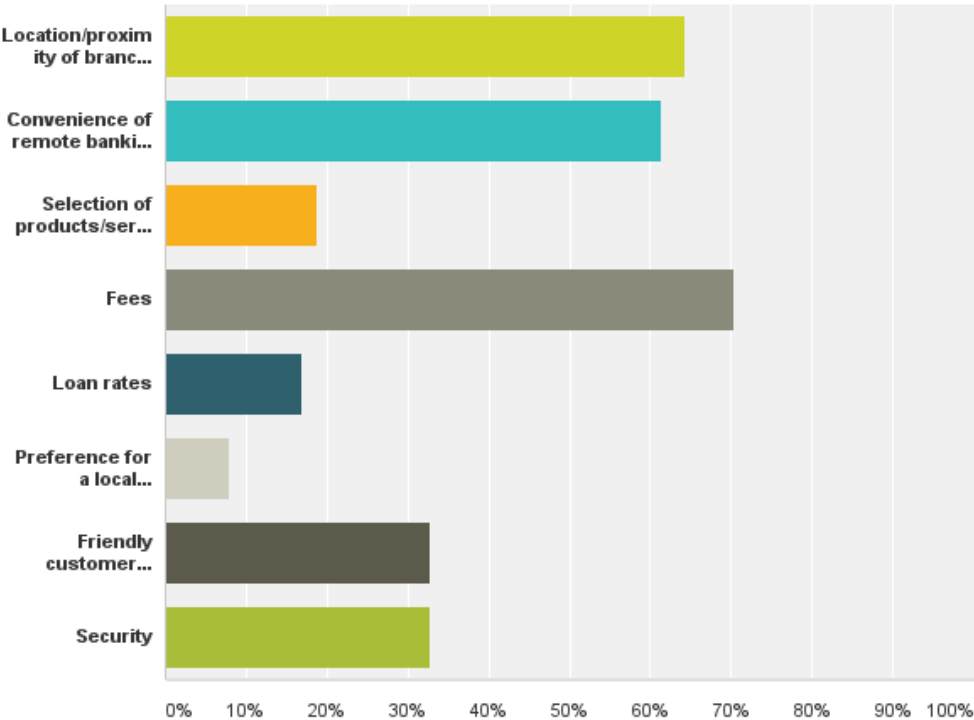
The consumer survey was sent to individuals between 22-35 years of age – millennials who would most likely be self-supported non-students with full time employment than their younger counterparts. We used Survey Monkey to acquire responses and achieve statistically significant results.

Findings/Impact:

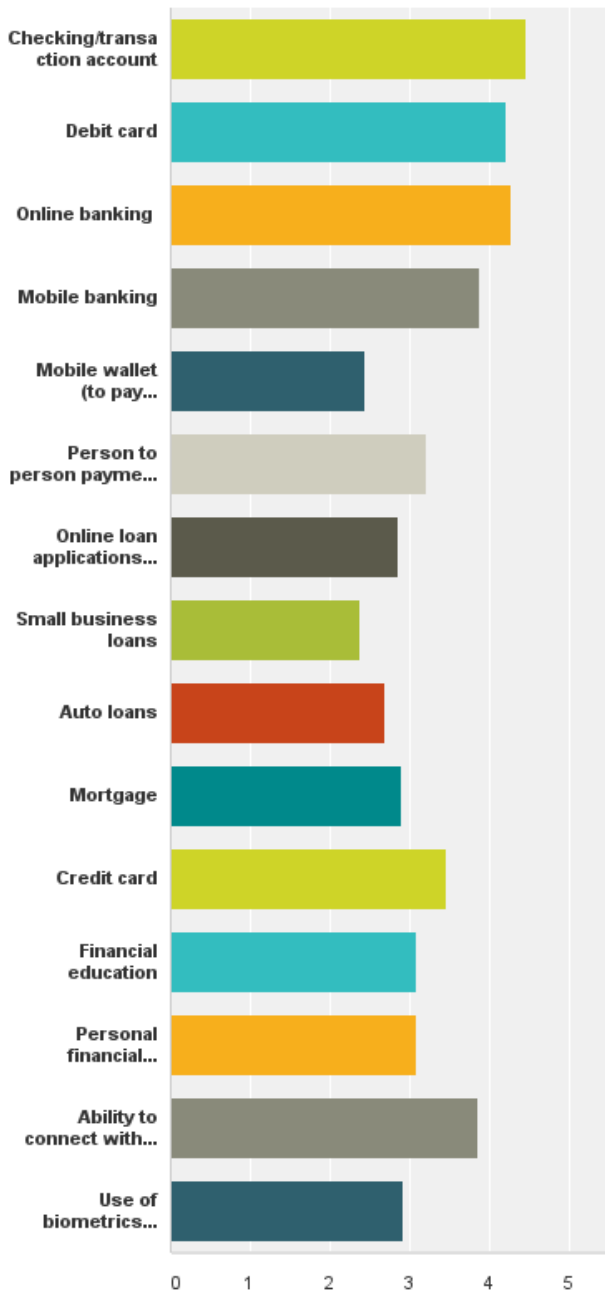
Respondents’ high scoring of “Location/proximity of branches” was somewhat surprising in light of extensive literature suggesting that millennials prefer to do *everything* online. The survey feedback signified the need for a stronger emphasis on a wide-array of support options (including face-to-face, on-demand web conferencing) as well as the availability of all participating credit union ATMs.

Q5 When thinking about where to bank, what are your top three (3) considerations?

Answered: 101 Skipped: 0



Q6 How important do you consider each of these products/services when selecting a financial institution (Using the rating scale: 1 = not at all important and 5= very important)

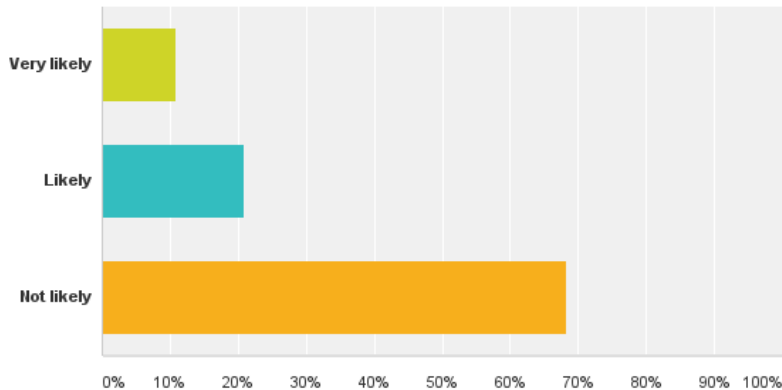


Respondents' key banking product considerations are fairly basic and unsurprising. Online banking edged out "ability to connect with a bank/CU employee easily via chat, phone or email," which tied with mobile banking but beat mobile wallet and P2P payments.

Millennials want personal interaction when needed, but may be open to receiving that support through digital channels.

Q7 Would you be interested in doing business with an online-only financial institution?

Answered: 101 Skipped: 0

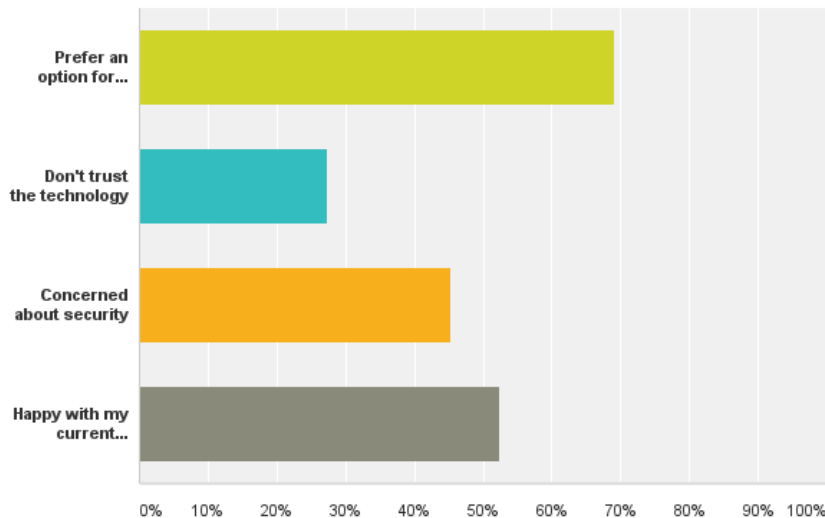


The percentage of respondents indicating they were not likely to do business with an online-only financial institution was surprisingly high. It is important to note that the 30 percent of individuals who say that were likely or very likely to do so represents approximately 65 million American consumers.

A review of verbatim responses suggests that many “not likely” responses are based in a concern about being unable to execute transactions (e.g. withdraw cash or deposit checks) outside of the branch that are, in fact, already available in a remote digital environment.

Q8 If you did not respond "very likely," what is the reason for your hesitation? (check all that apply)

Answered: 84 Skipped: 17



The final chart further indicates that an in-person option for some transactions continues to be valued by a significant proportion of the population.

CEO Survey:

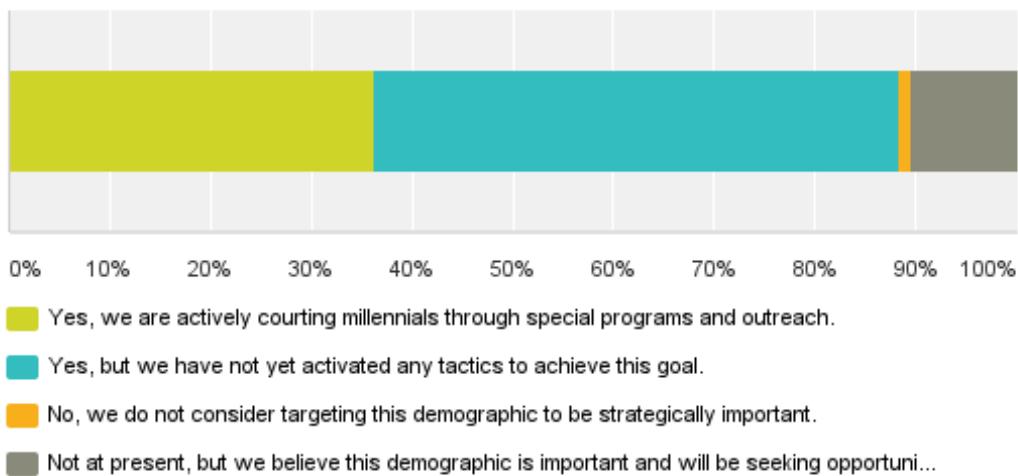
String Quartet sent a survey to CEOs of credit unions, garnering 77 responses, to explore interest in collaboration in general as well as the CUllaborate concept specifically.

Findings/Impact:

By and large, credit unions recognize the importance of reaching out to the “next generation” of members, but many have not yet begun to pursue this goal.

Q1 Is improving awareness among and increasing appeal to millennials a strategic objective for your credit union today?

Answered: 77 Skipped: 0

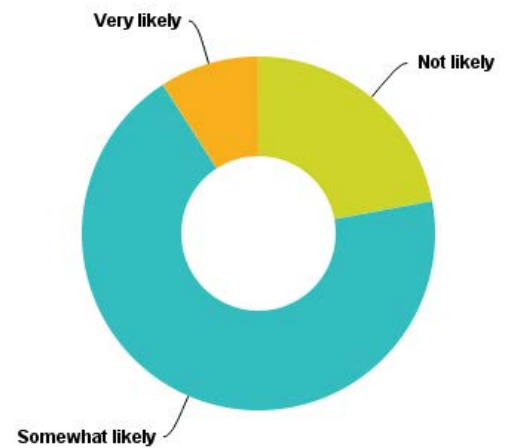


Assuming compliance requirements were met, what is the likelihood your CU would consider investing/participating in a “collaborative CU” as described...

And approximately 78% of respondents stated they would be likely or somewhat likely to participate in a program like CUllaborate.

Those who responded “somewhat likely” or “not likely” were asked to expound on their thinking:

Answered: 77 Skipped: 0



Q3 What factors best describe the reason for your response? (select all that apply)

Answered: 65 Skipped: 12

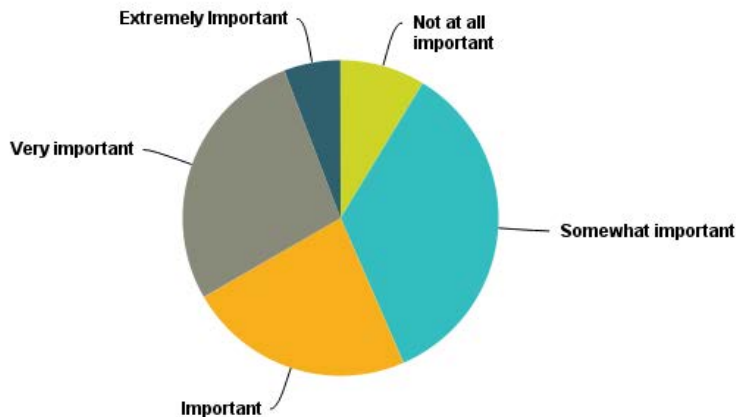


0 20 40 60 80 100 120 140 160 180 200

- I am satisfied with my credit union's current millennial market penetration.
- Cultural/philosophical -- the board and/or management is not willing to concentr...
- Cultural/philosophical -- the board and/or management is not willing to concentr...
- Concerns about competition with other credit union participants.
- Concerns about lack of control over the virtual entity.
- Inability to invest at present due to resource (time/funding) constraints.
- Credit union is going through or planning a merger.
- Concerns about losing identity/diminished brand with current market.
- Other (please specify)

Q4 How important is collaborating with other credit unions to your credit union?

Answered: 69 Skipped: 8



String Quartet was a bit surprised that only 39 percent of respondents indicated that collaboration is “Extremely Important,” “Very Important,” or “Important” to their credit unions. Credit unions won’t pursue collaboration for its own sake, but rather, will have to be convinced that the benefits outweigh the costs.

IT professionals who viewed the process documentation reported no technology obstacles and also no technology-related regulatory issues, but provided good suggestions for the technology framework.

BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA

CUllaborate will be a private company providing services to credit unions on a subscription basis.

CUllaborate offers both a long- and short-term tangible impact to credit unions' bottom line by allowing them to earn new business today and save on technology expenditures over time. For this opportunity, credit unions will pay annual licensing and subscription fees of \$5,000 and \$28,800, respectively

After three years, credit union subscribers will be able to tap into the technology architecture that powers CUllaborate for use in their own shops, which will enable them to provide an optimal online experience for all new and existing direct members at a scale-driven affordable price point.

String Quartet made an assumption that CUllaborate would receive an initial capital infusion of \$1.0 million to cover the costs of identifying, implementing and integrating technology, developing agreements, bringing credit unions on board and marketing the service. This capital would most likely come from one or more industry-friendly investors.

The Pro Forma below presents a high-level view of the CUllaborate business model and is subject to change pending additional research.

	Year 1	Year 2	Year 3	Year 4	Year 5
Venture Capital	1,000,000				
# of CUs Cullaborating	10	25	40	55	70
Income Statement					
Licensing Fees	50,000	125,000	200,000	275,000	350,000
Annual Subscription Fees	288,000	720,000	1,152,000	1,584,000	2,016,000
Total Revenue	338,000	845,000	1,352,000	1,859,000	2,366,000
Management Expenses	500,000	515,000	530,450	546,364	562,754
R&D	150,000	50,000	50,000	50,000	50,000
Marketing	150,000	100,000	100,000	100,000	100,000
Software Licenses	100,000	100,000	100,000	100,000	100,000
Total Expense	900,000	765,000	780,450	796,364	812,754
Net Profit	-562,000	80,000	571,550	1,062,637	1,553,246
Capital Balance:	438,000	518,000	1,089,550	2,152,187	3,705,432
Assumptions:					
One or more industry-friendly venture capitalist would provide an initial capitalization of					

\$1.5 million

Credit unions pay \$33,800 per year in subscription and licensing fees for access to the CUllaborate service.

Based on current industry data, a credit union would spend \$36,000/year to attract 10 new members per month.

Management is made up of three full time staff.

Licensing fees could change in later years, depending upon adoption of the CUllaborate platform to acquire and serve direct members.

COMMENTS, NEXT STEPS, AND CALL TO ACTION

The CUllaborate concept is in the earliest stage of development. To come to fruition, CUllaborate will require additional business model refinement, regulatory research, extensive credit union feedback, technology/vendor identification, a marketing plan ... and much more. Moreover, CUllaborate will need dedicated people to bring all of these pieces together. Funding will be required to initiate this process, and String Quartet hopes that its presentation will help to secure sponsors for that work.

Anecdotes abound to illustrate how companies that do not change by anticipating and meeting consumer needs will be disrupted and replaced (Blockbuster, Kodak, taxi cabs) ... and how firms that don't attain economies of scale will be squeezed out of the market place (mom and pop hardware stores, local restaurants and the like). While these threats are real, it is more useful to contemplate the following analogy: CUllaborate is (can be) for credit unions what Amazon is for thousands of retailers around the globe. This powerhouse has mastered the art of bringing its customers whatever they need, when they need it – channeling the products of thousands of companies and leveraging a distribution methodology that gets those products into the hands of consumers better and faster than any individual retailer could do on its own. CUllaborate offers the same value proposition, while also incorporating safeguards to ensure participating credit unions' brand and market position are not compromised.

For the past decade, financial institutions have been on a quest to find the right formula for becoming, and remaining, relevant to the next generation of consumers. Hundreds of conferences, thousands of books, dozens of research projects and countless articles are dedicated to this very topic. Now is the time for credit unions to leverage their unique, cooperative nature to tackle this challenge once and for all. Now is the time to CUllaborate.

ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

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