



cover me

Peace of mind knowing we've got you covered...

CONCEPT DOCUMENT



TEAM MEMBERS

Betsy Guerrero, Westerra Credit Union
Adam Marlowe, Georgia's Own Credit Union
Michelle Merkley, Keystone Federal Credit Union
Steve Webb, Neighbors Federal Credit Union

THE OPPORTUNITY

Non-interest income is subject to more scrutiny than ever before in the financial sector at a time when financial institutions are becoming increasingly dependent on this revenue stream. A significant percentage of this income is generated by fees derived from Overdraft Privilege or Courtesy Pay programs. The Consumer Financial Protection Bureau has recently announced their intent to investigate the aforementioned programs currently being offered by financial institutions. In addition, consumers are making their voices heard about fees. When large banks announced they would charge new debit card fees to recoup lost income, consumers responded with a nationwide call to action, known as Bank Transfer Day, to move money from large “greedy” banks to local credit unions and community banks. The credit union industry therefore is positioned to lead the financial services industry by offering consumers a lower cost solution to overdrafts by notifying members of a potential overdraft incident - and the means to prevent an overdraft from happening.

THE SOLUTION

In light of the need to be an advocate for the consumer and the need to ensure the continuation of this revenue stream, or at least a percentage of it, Cover Me offers a unique opportunity for the credit union movement. The positive trends in online and mobile banking make text messaging an ideal medium for the introduction of the Cover Me service. In fact, per Javelin, their research forecasts that “45% of U.S. adults – or 93 million people – will receive financial alerts on their personal computers, smart phones, mobile phones and tablets by 2015, representing a 6% [Compounded Annual Growth Rate] CAGR and a real opportunity for financial institutions to build customer loyalty.” Cover Me alerts are simple, actionable text messages, that will notify a member that an item has been presented that will overdraw their account. By using existing technology, the text message will allow the member the opportunity to authorize a transfer of funds from an external source to cover the presented item. Cover Me is different than current alerts in that it allows the member to change the outcome of a situation versus just being informed about what has already happened. Member savings could be \$43 (or more) per item processed based on average financial institution and merchant overdraft fees, net of a Cover Me service fee.

Cover Me is a progressive service credit unions can offer that will assist consumers in managing their finances when, where and how they choose to do so. The service further strengthens the industry’s overall guiding philosophy of being there for the member when they need it, offering the consumer a more cost-effective way to manage overdrafts, and “doing what is right” for the credit union member owners.

TARGET MARKET

The target market would focus on a broad group of members with a focus on those who are likely to be high adopters of mobile banking and are active text message users. This would include individuals ages 18-34, and those who have a regular but not excessive history of NSF occurrences (1 – 2 per month).

CONSUMER BENEFITS

- Saves Money - Saves the member money by preventing additional fees assessed by a merchant in addition to normal overdraft fees assessed by the individual financial institution.
- Convenient - Saves the member time by allowing a simple transaction via their mobile device.
- Peace of Mind - Helps preserve the member's credit rating.
- Ease of Use – By quickly responding to a text message the member can activate a transfer from a different account or external funding source.

CREDIT UNION BENEFITS

- Member Penetration - Increase market share based off of product offering.
- Minimal Investment - Self-service, requiring minimal employee interaction.
- Consumer Focused - Proactive, consumer driven, alternative to overdraft program.
- Brand Differentiation – Highlights the credit union commitment to consumer needs.

PROOF OF CONCEPT RESULTS

To get consumer feedback on the Cover Me service idea, the i³ team surveyed more than 100 individuals, consisting mainly of colleagues and friends of the i³ team members. Most surveyed completed an anonymous online survey.

According to the survey's 128 respondents, the average overdraft fee is \$29.50 with fees ranging from \$25.00 to \$45.00. Although 97% of the respondents indicated that they do not routinely pay overdraft fees, 71% would be willing to pay a smaller fee to avoid a return of an item. Survey results indicate that a reasonable fee for the service is \$10 per occurrence. Additionally, 87% of respondents saw value in a financial institution offering an option to cover a potential overdraft with funds from a credit card or external account.

When asked how many times per month a member should be allowed to utilize the service, 17% indicated one time per month, 19% indicated two times per month, 39% indicated 3 times per month and 25% indicated other which correlated to unlimited based on survey responses. Seventy five percent therefore felt limiting the use of the service was acceptable.

An additional question asked, “Would this type of service motivate you to switch financial institutions?” 41% of the respondents overwhelmingly responded yes and included the value-added comments below:

“Most consumers are busy balancing work and home responsibilities. It would be nice to know my financial institution has my back. Mistakes happen – miscommunication between spouses happens – a service like this would provide relief in that I would have a chance to correct a mistake before being assessed enormous fees.”

“Offers value in a fast paced world where you can't always be right on top of everything.”

“I would feel like it provides great customer service and I am important/my financial institution thinks of me as a person and they are not out for the enormous fees.”

OPERATIONAL AND OTHER CONSIDERATIONS

The operations process of Cover Me is as follows (a visual depiction of the process is included under Supplemental Information):

- The member signs up to activate the Cover Me service on their account.
- An item is processed through the credit union's draft or ACH function and is unable to post (clear due to a lack of funds (after the member-selected overdraft plan has completed).
- A Cover Me Alert (SMS text) is sent to the member's mobile device notifying them an item(s) is unable to post due to non-sufficient funds. Within the text is an action link for the member to authorize the funding of the account via an alternate source (i.e. a checking account at another financial institution, a credit card, etc.). As an example, the text could read “A 'Cover Me' event has

occurred on your account. To fund your account with \$0.00 reply YES to use the account on file. Reply must be received by 2:00pm EST.”

- If the member opts to fund the account, the aforementioned item(s) would be posted to the account, drawing the member negative while accounting for a pending ACH credit.
 - A Cover Me service fee would be assessed at this time.
- If the member opts not to fund the account (after a specified time frame or action), the item would be returned via normal processing methods.

FINANCIAL PRO-FORMA/ROI

Recognizing the importance of overdraft fee income to financial institutions, it is important to understand the impact the Cover Me service could have on that income and the profitability of the credit union. Although the break even analysis included in the supplemental information shows that the Cover Me service alone is not profitable, a credit union would merely need to grow its checking accounts by 11% to break even. This is entirely feasible based on survey results that indicate a service of this type would motivate 41% of respondents to switch financial institutions.

The analysis does not take into consideration the true value that the Cover Me service provides, which is increased loyalty that will drive more products and services per member and new member growth as a result of providing the Cover Me service, both of which will contribute to the increased profitability of the credit union. In addition, those who will embrace the Cover Me service are likely to be comparatively lower-cost members as they value and utilize electronic delivery channels. The self-service preference of these members results in a lower cost to service these members which will boost profitability. This concept was noted in a recent Javelin report regarding consumer use of alerts. The report also noted that those who embrace alerts are a prime revenue-generating segment.

RESOURCES

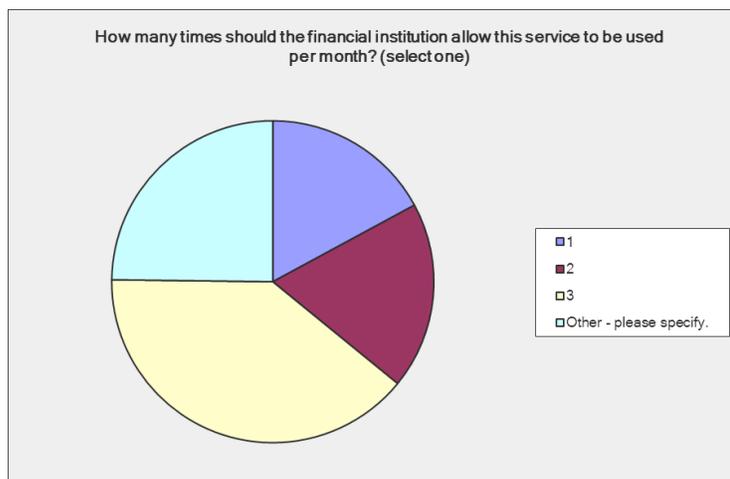
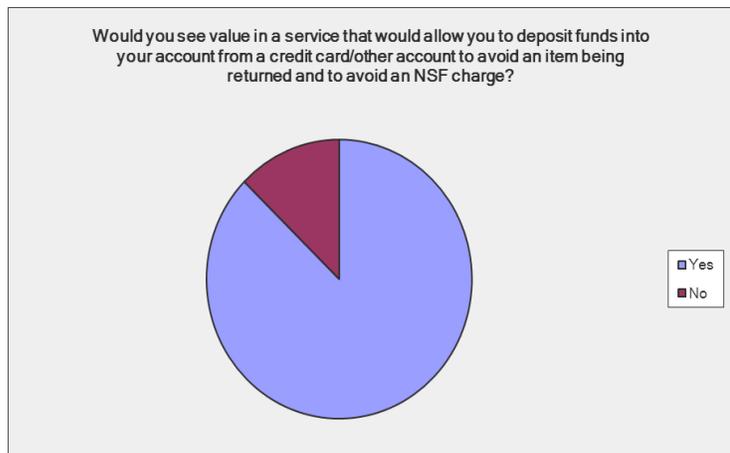
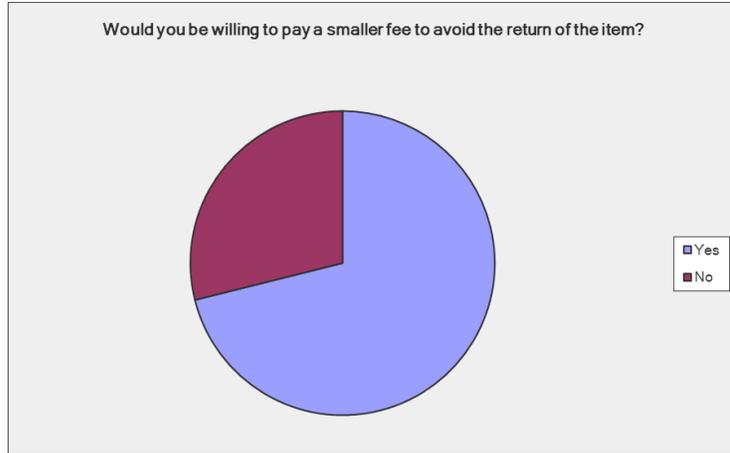
- Portigal Consulting
The team invited Steve Portigal and Julie Norvaisas to review the concept idea and provide feedback.
- SWBC
The team reached out to SWBC, a leading financial services technology provider, to discuss the conceptualization and utilization of current and future SWBC services.

GETTING STARTED

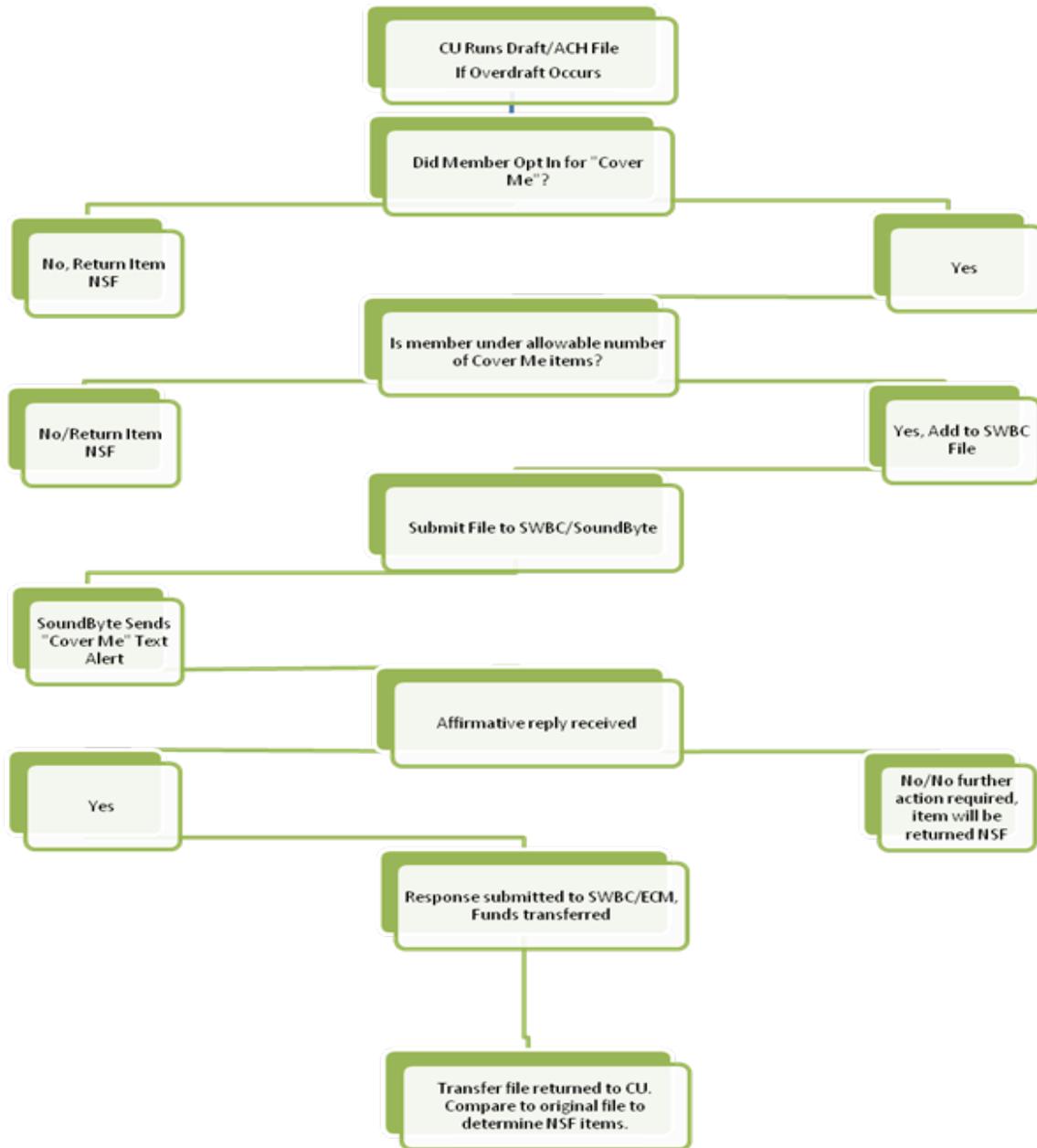
1. The credit union would need to consider the impact of reduced fee income from overdrafts that are eligible for the Cover Me service.
2. Integration with the credit union’s core system and the third party provider of the service would need to be established.
3. Staff training will be required to inform and cross-sell this service to members.
4. Promotional, Disclosure and Opt-In materials will need to be developed.
5. Contact us at innovation@filene.org if interested in piloting Cover Me.

SUPPLEMENTAL INFORMATION

Survey Results



Flow Chart of Cover Me Process



Break Even Analysis		
Total Number of Checking Accounts		10,000
Estimated Reduction in Fee Income per Cover Me Utilization/Transfer ¹	\$	46
Estimated Number of Cover Me Utilizations/Transfers per Month ²		225
Estimated Reduction in Fee Income per Month	\$	10,350
Estimated Monthly Cost for Cover Me Texts and Transfers ³	\$	765
Estimated Net Reduction to Net Income per Month	\$	11,115
Estimated Number of New Checking Accounts Needed to Break-Even ⁴		1,112
Estimated New Accounts Needed as Percentage of Existing Checking Accounts		11.12%
¹ Estimated loss of \$28 NSF fee on two items cleared per Cover Me utilization, offset by \$10 Cover Me service fee.		
² Estimated 9% of accounts have 1 or more NSFs in a month; that 25% of those have access to funds outside the credit union available to transfer; and that 50% of those would respond to the text and authorize a transfer in a timely manner and that they would do this the two times per month permitted under the service.		
³ Estimated third party cost per text notification of \$.10 and \$3.00 per transfer processed.		
⁴ Estimated based on average profitability per checking account per month of \$10 including all income sources, expenses and funds transfer pricing.		