

Early Concept Document  
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# Shape Up



## Certificate

### CONCEPT DOCUMENT



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## THE OPPORTUNITY

As the economy slowly begins to recover, the dramatic impact the Great Recession had on the American consumer is becoming evident. A comprehensive study by the Federal Reserve Board, released in March 2011, reveals that the economic crisis negatively affected nearly two of every three American households. According to the study, the average American household's net worth declined 23% between 2007 and 2009. During that period the average family took on more debt as they brought home less money.<sup>1</sup>

The research also illustrates that consumers have become much more focused on reducing debt and adding to their rainy day fund. According to the report, "Most families in each of the relative wealth categories reported greater desired precautionary savings in 2009 than in 2007."<sup>2</sup> According to the US Bureau of Economic Analysis, the average American consumer's personal savings rate increased from just over 2% in 2007 to over 5% at the end of 2010.<sup>3</sup>

## THE SOLUTION

As multiple studies have shown, savings and thrift have moved to the top of the typical consumers' list of priorities. The challenging economic environment has led to a focus on reducing debt and increasing personal savings levels. According to the 2009 Forrester's Customer Advocacy study, credit unions are the most trusted financial institutions in America.<sup>4</sup> This trust and confidence reinforces the fact that credit unions are in a unique position to help their members navigate the financial paradox.

The *Shape Up Certificate* is a product designed to improve, over time, a member's financial fitness. The product features a three pronged approach to better financial health.

The *Shape Up Certificate*:

1. **Rewards Saving:** The product encourages saving by offering the member the opportunity to earn a higher APY as they meet credit union defined qualifiers. Additionally, the member may earn a reward for completing the initial financial "check up".
2. **Clarifies and Informs:** Through an annual "check up" with a personal financial advocate, the member will gain a greater understanding of their individual financial picture. The member will also have the opportunity to develop annual financial goals.
3. **Encourages Thrift and Saves Money:** The annual "check-up" may uncover opportunities for the member to save money by refinancing existing debt at a lower rate with the credit union. Through refinancing, the member may also have the

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opportunity to increase their monthly disposable income, thus increasing the amount earmarked for savings.

## TARGET MARKET

- Credit-driven consumers aged 24-55
- Members interested in paying down their existing debt and increasing their overall personal savings level
- Consumers with moderate credit
- Members with less than \$25K to invest

## CONSUMER BENEFITS

- Rewards Saving
- Makes Money
- Informs About Credit Union Loan and Deposit Opportunities
- Encourages Thrift
- Improves Overall Financial Picture

## CREDIT UNION BENEFITS

- Enables a credit union to capitalize on the industry's philosophy of people helping people by designing a product that promotes financial wellness. In today's push for financial reform and criticism by the banking industry, it is important for credit unions to have a good story to tell and a positive brand association;
- Contributes towards organic growth with low acquisition costs. Credit unions with strong sales and service cultures will convert the annual check-ups into additional products and services, gaining a greater share of their member's wallet;
- Creates an opportunity to become a member's trusted financial advisor;
- Generates ongoing cross-sell opportunities;
- Drives business to both sides of the credit union's balance sheet (deposits and loans).

## PRODUCT FEATURES

- Certificate of Deposit with a 12 month term.
  - The initial rate offering may be slightly higher (5-25 bps) than a standard 12 month certificate.
  - At each renewal, the rate on the *Shape Up Certificate* will receive the higher certificate rate if the member meets predetermined criteria (set at the initial financial counseling session).

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- Annual Financial Check Up

## PILOT RESULTS

A+ Federal Credit Union piloted the high touch model of the *Shape Up Certificate* at three of their Austin, Texas area branches. Just over 1,800 members who live within a 10 mile footprint of the piloting branches received a marketing piece via email. During the three week long pilot there were no members who specifically requested a *Shape Up Certificate*. The credit union staff suggested the product to a small percentage of members who fell within the targeted demographic. The most common reason members used for declining the *Shape Up Certificate* was that they did not have the time to complete the financial check up. Several members who received the email did take advantage of other products and services A+ Federal Credit Union offers. These included:

- Seven new savings accounts totaling \$25,000 in deposits
- Five new certificates of deposit totaling \$84,000 in deposits;
- Seventeen new loans totaling \$350,000

Hudson Valley Federal Credit Union in Poughkeepsie, NY beta-tested the low touch model of the *Shape Up Certificate* with two members. Both members contacted BALANCE for their financial check up. The feedback included:

- Pros
  - Easy process
  - Representative was very friendly
  - Very thorough and informative
  - Written report was easy to understand and very helpful
- Cons
  - Time consuming
  - Two separate phone consultations necessary
  - Concern about security of information once released to BALANCE

One of the members summed the process up as follows:

*“When I got the final report – it was extremely helpful to me as I am about to get married. The report was very easy to read and was not confusing. The information was in lay-mans terms which was great. I can see the value in comparing the report from Balance – year over year.....to ensure I stay on course with my financial life. Again, if the time to do the counseling session could be reduced – I’d gladly open a Certificate, get the incentive, and help my financial future.”*

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## OPERATIONAL AND OTHER CONSIDERATIONS

### REWARDS

The individual credit union will have the flexibility to determine their specific incentive reward offerings. The Idea Sculptures Team surveyed over 80 consumers. The survey group was asked the following question regarding rewards:

Please rate what type of incentive would appeal to you:

1. Deposit Rate Premium
2. Cash Rebate
3. Reward Points to be Used for Merchandise
4. Gift Cards to Favorite Merchants
5. Discounted Loan Rate
6. Donation to a Local Charity
7. Your Idea

Consumers preferred a cash rebate, a deposit rate premium or a discounted loan rate almost equally.

Suggested reward offerings include:

- Discounted rate for certain loan types (5-25bp)
- Cash back (up to \$25 for opening a certificate)
- Basis point bump on certificate (+.25bp)
- Gift card
- Local community tie-ins
  - Discounted/free products and services
  - Tickets or admission to community events and/or local sports teams
  - Donation to local charity
- Rewards points towards merchandise
- Fee waiver credits

The individual credit unions will have the flexibility to determine the criteria the member must meet to receive a reward. For example, reward qualifiers may include:

- Meet with a credit union professional and execute agreed upon plan;



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- Add at least one additional product. If the additional product is a deposit account then the member must add one remote service;
  - Meet with a credit union approved financial counseling professional and execute agreed upon plan;
  - Improve debt ratio X percent;
  - Close X number of trade lines;
  - Complete X number of topics utilizing a credit union approved online curriculum through a partner like BALANCE.

## PROCESS

The annual financial counseling session will take approximately 30-45 minutes to complete with the member. The individual credit union may choose to utilize an internal resource to meet with the member and complete the financial counseling session or to outsource it to a pre-approved third-party to complete the session. The Idea Sculptures Team worked closely with BALANCE to create a “Low Touch” version of the *Shape Up Certificate*. A credit union that opts for the “Low Touch” version of the product outsources only the member financial counseling component of the *Shape Up Certificate*.

### A. High Touch

At the initial financial counseling session the program criteria, expectations and qualifiers are explained to the member. The member has the opportunity to select their preferred qualifying activity or measurement and the corresponding incentive reward.

The staff member who opens the account is designated as that member’s personal financial adviser, their go-to person for questions, follow-up communication, etc.

The credit union determines an on-boarding schedule (i.e. first 30 days, 6 month interval, 11 month interval and at maturity). Personalized communication throughout the term of the certificate may include encouraging messages, information specific to the member’s financial goals, and relevant product offerings.

At the subsequent annual check-up, the credit union representative and the member will determine the member’s success during the previous year. If the member fails to meet their goals within the predetermined timeframe, they forfeit the ability to earn future rewards. Each qualifying member is entitled to one incentive reward per term.

### B. Low Touch

During the *Shape Up Certificate* account opening process the member is introduced to BALANCE and the measurement necessary to obtain an incentive reward. The member selects their preferred incentive reward.

The member contacts BALANCE, or another approved third-party, directly to utilize their expertise and service. When a member meets with a BALANCE representative they must proactively request the credit union be notified via the predetermined method agreed to in the partnership paperwork. Tracking goal achievement during the term of the *Shape Up Certificate* is the responsibility of the member. Should the member fail to meet their goals within the predetermined timeframe or fail to inform the credit union of their goal attainment, the member forfeits the ability to earn future rewards. Each member is entitled to one incentive reward per twelve month term.




Based on feedback from both the pilot and beta test participants, a credit union will gain greater efficiencies and save their members valuable time by automating the financial check-up process (with an online or mobile device application).

## PROOF OF CONCEPT





Over eighty consumers were surveyed to gauge interest in the *Shape Up Certificate* concept (originally called the incentivized time share certificate or ITSC). The survey results included:

1. Does a certificate product (like ITSC) that offers you the ability to earn an additional incentive or premium interest rate appeal to you?			
		Response Percent	Response Count
Yes		63.4%	52
No		11.0%	9
Maybe		25.6%	21
answered question			82
skipped question			0




2. Do you see merit in receiving an annual financial, budgeting and debt-management “check-up” from your credit union?

		Response Percent	Response Count
Yes		72.0%	59
No		8.5%	7
Maybe		19.5%	16
		answered question	82
		skipped question	0

3. If you had at least \$1,000 to invest in this type of share certificate, how likely is it that you would choose this type over a traditional type certificate?

		Response Percent	Response Count
Not at all		4.9%	4
Somewhat unlikely		19.5%	16
Somewhat likely		64.6%	53
Definitely		11.0%	9
		answered question	82
		skipped question	0

4. If your financial institution after looking at your credit report during the process of opening up this new type of share certificate could also help you save money on your current loans, would you listen and use their advice?

		Response Percent	Response Count
Yes		74.4%	61
No		1.2%	1
Maybe		24.4%	20
		answered question	82
		skipped question	0

## FINANCIAL PRO-FORMA/RETURN ON INVESTMENT (ROI)

If positioned correctly, the *Shape Up Certificate* will benefit both “sides” of a credit union’s balance sheet. For example:



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- Credit Union assets will increase with the new loan originations that are uncovered as a result of the annual member credit counseling / debt ratio analysis.
  - Credit Union liabilities will increase as the result of new dollars brought into the one year certificate account by these same members.

Without successfully uncovering new loan opportunities, a credit union will not be able to easily support this product as the direct and indirect costs (e.g. dividend expense, NCUSIF share assessment, cost of incentive and credit counseling) of the *Shape Up Certificate* cannot be supported by the credit union simply investing the deposit inflow in a short term investment.

A positive ROI can be achieved with this product if loan opportunities are uncovered that will in turn generate loan interest income and cross sell revenue.

## RESOURCES

Special thanks to:

### 1. BALANCE

[www.balancepro.org](http://www.balancepro.org)

Phone: 800-808-4327 x219 Fax: 402-496-1119

\*Jeannine Moore, VP / Marketing & Business Development

\*Karen Schwall, Director of Partner Relations

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### 2. Linda Raphael, Marketing Graphic Designer, Hudson Valley Federal Credit Union

## GETTING STARTED

1. Contact us if interested at [innovation@filene.org](mailto:innovation@filene.org).

<sup>1</sup> [Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 – 2009](http://www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf) Federal Reserve Board of Governors, <http://www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf>

<sup>2</sup> [Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 – 2009](http://www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf), Federal Reserve Board of Governors, <http://www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf>, page 21,

<sup>3</sup> [Personal Income and Outlays, February 2011](http://www.bea.gov/newsreleases/national/pi/2011/pi0211.htm), U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/newsreleases/national/pi/2011/pi0211.htm>

<sup>4</sup> [Customer Advocacy 2009: How Customers Rate US Banks, Investment Firms, and Insurers](http://www.forrester.com/rb/Research/customer_advocacy_2009_how_customers_rate_us/q/id/47992/t/2), Forrester Research, [http://www.forrester.com/rb/Research/customer\\_advocacy\\_2009\\_how\\_customers\\_rate\\_us/q/id/47992/t/2](http://www.forrester.com/rb/Research/customer_advocacy_2009_how_customers_rate_us/q/id/47992/t/2)