Credit unions are facing disruption, not just from bank competitors, but also from non-traditional services. Credit unions are scrambling to launch and/or improve remote services, which include video tellers, mobile applications, customer relationship management tools (CRM), and personal financial management tools (PFM). These technology additions come from both member demand and an effort to remain relevant, and competitive. All of these emerging technologies, and the member experience are in an integration crisis. Credit unions need to strategically look at emerging technology and Big Data to determine how they are going to integrate new technologies and how to use this data to position their organization in a data-driven, tech-savvy world.

HOW CAN DIRECTORS AND SENIOR MANAGEMENT KEEP PACE WITH NEW TECHNOLOGY AND DATA UTILIZATION?

As credit unions strategically decide how to adopt new technologies and utilize data, they must incorporate a digital strategy and data strategy into their planning process. Integration efficiencies and standards should be developed through a collaboration of the credit union, vendor, and core system provider. Austin Wentzlaff, Director of Business Development with *OnApproach* believes, “New technologies will rapidly change the way people bank. The introduction of new ways to interact with a bank will shift banking from face-to-face relationships to relationships built off of data.”

When it comes to emerging technologies, most credit unions choose to position themselves as *fast followers*. For some credit unions, fast follower means, after the business case has been validated with multiple implementations and has been published as a best practice—in other words, when virtually all implementation risk has been removed from the technology. For other credit unions, fast follower is that point at which the FinTech Company has been vetted through vendor due diligence and an alpha has been tested and commercialized. Still other credit unions define it as actually being the alpha test organization.

Austin Wentzlaff believes, “Every single part of the credit union and bank core business is at risk from emerging technology. New startups are aiming to take away the most profitable segments while leaving the unprofitable segments.”

In terms of data, credit unions range from being intuitive decision-makers, to being data driven, to experiencing “paralysis by analysis.” Data can be used to validate a decision that has already been made. To prevent less-than-ideal outcomes, the Board and Senior Management must determine how they want to use data to more accurately plan for the future, make decisions, serve the member, and improve their credit union’s processes and systems, all while assessing their risk tolerance for potential failure.

Austin Wentzlaff says the following steps are required to prepare for new technology and data utilization, “Implement an Enterprise Data Model. Develop a data strategy. Evaluate all source systems with the end in mind… Answer the question, what types of information do we want to get out of the raw data entered into our systems? If the existing system or software doesn’t provide good access to all of this data, the credit union or bank may want to consider switching to a new system.”

Staying on top of all of the innovation is a real challenge for credit unions. In the areas of technology innovation and data utilization, “It all comes down to knowing your members and being able to transition that knowledge into action,” according to Ben Jordan, Vice President of Technology Services at Synergent. “Member information is at the fingertips of every credit union, and having the ability to use this information in meaningful ways is key.” This kind of thinking recognizes that all our business decisions need to have a member focus in order to keep credit unions relevant.

Focusing on new technologies continues to be an important part of the credit union culture. With emerging technology there is a need for system integrations, the sharing of data between the credit union and the vendor. Integrating older technologies with newer products and services needs to improve so speed to market can keep up with the pace of change expected by consumers. In today’s credit union, it is not uncommon to see 50 or more third-party providers that require integration into the credit union’s core provider or another vendor. No department in the credit union is immune to the challenge of integration. Finding ways to quickly integrate with current offerings is essential to our future. The time, cost, and resources required to integrate technologies is creating significant project queues in IT, slowing the time to market for these emerging technologies.

Member-first thinking is a common denominator for credit unions working to stay relevant, but aligning the channels and processes is also important. As more and more consumers choose digital and mobile channels to engage their credit union, having the ability to communicate face-to-face with the member via remote channels is critically important to maintaining the cross- sell and up-sell opportunities.

WHERE ARE THE EMERGING TECHNOLOGIES COMING FROM?

At the BAI Retail Delivery Conference in 2014, all of the showcased technology innovation came from outside the United States. Europe and the UK had a strong presence, as did Asia. One could conclude from this event that U.S. financial institutions are not investing in the research and development necessary for innovation. It can also be noted that European and Asian financial institutions are much quicker to adopt new technology. Europe was years ahead of the US in adopting EMV. In the United States, most of the innovation to date has been from non-banking companies like PayPal, Google, Starbucks, Apple, SoFi and others.

There are, however, companies that are putting new technologies in the hands of credit unions today. Ben Jordan shares, "We at *Synergent* are fortunate to work with Access Softek on mobile services, which is based out of Silicon Valley and serviced from New York City."

Austin Wentzlaff also sees significant new technology coming in the arena of data and analytics from companies like his, *OnApproach*. They are helping credit unions turn raw data into actionable insights.

WHAT FORMS ARE THE EMERGING TECHNOLOGIES ARRIVING IN?

MOBILE – Consumers reach for their phone for everything today. Whether it's to set a reminder or alarm, text a friend, check their account balance, transfer money, or make a payment—they are using their phones. "For credit unions, having a mobile app is like having a branch in every member's pocket!" Jordan says. Mobile adoption is progressing more rapidly than the adoption of online banking, with adoption rates measured in months, while online banking was measured in years. Jordan notes, "Mobile is altering how members think about everything they do." Austin Wentzlaff added, "We are seeing it today, consumers are embracing mobility and are shifting from face-to-face transactions using physical cash that was withdrawn at a branch to mobile transactions that involves no human or branch interaction."

PAYMENTS – The payments industry is garnering a lot of attention because of Apple Pay, Google Pay, and others. Having a keen eye on which payment options consumers show interest in is critically important to understanding how the credit union's revenue, convenience, and access will be affected. "New options like SpotPay from Fiserv show how creativity is entering this space," explains Jordan. "Non-traditional competitors are coming forward from every direction, while it remains to be seen whether other major technological forces like Google, Samsung, and Facebook will or will not strongly enter this space."

Payments innovation is an area of great concern for credit unions because although consumers are still reaching for their plastic cards first, this habit may be ending. How can credit unions protect the revenue of interchange income if all of these transactions become ACH transactions?

BRANCH TRANSFORMATION – The discussion of "the future of branches" is raging. Credit unions should position themselves for the uncertainty that the branch will remain the primary access, sales and service center of the future. In addition, the bread and butter of the credit union business model, lending, must keep pace with the application and underwriting process of competitors to capture or maintain market share. Credit unions are competing with online/mobile lenders and even peer-to-peer lending. Consumers will acquire their loans from the provider that is the most mobile friendly, has the least friction in their lending process and makes the quickest decision.

DATA UTILIZATION – Big Data is a hot topic, and the required tools for data warehouses, data aggregation, data mining, and propensity modeling must be understood and embraced. Data is becoming an organizational asset. Credit unions that use data to improve their planning, implementations, forecasting, marketing, processes, and member understanding will ultimately win.

"Data is really the core of emerging technologies. The data produced by new technologies needs to be stored and analyzed. And the data that is stored and analyzed can then be turned into new products and services that then create more data that needs to be analyzed and the cycle repeats," according to Austin Wentzlaff.

Ben Jordan asserts, "Although the tools are becoming incrementally more user-friendly, the need for the skills to translate business questions into technical requests is growing exponentially. There are not enough people to help utilize the tools. Credit unions must either find skilled people to join their staff and develop them over time, or they must find a trusted provider who can provide the needed skills."

Austin Wentzlaff says, "Collaboration is necessary on all fronts. Credit unions must collaborate with each other, they must collaborate with vendors, and vendors must collaborate amongst themselves. There are too many different initiatives going on… More time spent *trying* to do something than actually doing it. For example, at *OnApproach* we might have four vendors providing lending analytics software and fifty credit unions creating their own analytic software. What if we had those fifty-four disparate efforts come together to make one great solution rather than fifty-four mediocre solutions?"

The industry needs to embrace collaboration and platform models just like Apple created with the open API to the App Store. Have one party create the app and share it with all for free or for some cost. CUFX Standards, a CUNA Tech Council initiative, is proving just that, collaboration between credit unions, vendors and core providers to create an integration standard with the promise of saving integration costs and improving speed to market.

According to Peter Sondergaard, SVP of Gartner Research, "Information is the oil of the 21st century, and analytics is the combustion engine." Today, information is data. Knowing how to aggregate, store, access, segment, trend, present, and visualize data is an emerging organizational need. With each new emerging technology there is a need to understand how its new data points are being adopted and used; and to identify what efficiencies this new technology and its data points can provide to the credit union.

EMERGING TECHNOLOGIES CAN COME FROM ANYWHERE

Ben Jordan explains, "Watching for disruption can be as easy as taking careful note of what merchants are doing, what features Apple has in their newest phone, or what your Millennial employees seem to enjoy using for product adoption and service utilization. Stay alert and look for opportunities; there will be many in the years to come." From a service delivery model, Apple changed the way consumers shop for and purchase their products. Many forward-thinking credit unions are innovating service delivery and member engagement models in their branches to be “Apple-esque.”

The key is not just looking at the financial services sector. Austin Wentzlaff agrees, stating, “Outside the industry companies that don’t typically operate in financial services are starting to enter the sector (e.g. Amazon, Apple, etc.)”.

Emerging technology is in use today in the retail merchant sector. The beacons that Home Depot uses to watch how their customers are browsing their stores can be applied to credit unions. There might be an opportunity to have a beacon in a car dealership that will recognize a member shopping for a car and send them a message with an auto loan offer. Progressive retail stores use beacons to change the digital graphic being presented based on what they know about the customer’s shopping preferences. This technology can also be repurposed by credit unions to change the digital screens in the branch. As Jordan said, “Watch the digital natives in your staff and membership to determine how and what they are doing with emerging technology.”

The risk credit unions need to avoid is focusing only on the financial services sector for innovation and emerging technologies. Jordan continues, “This is what I love about my job at *Synergent*. The way I stay on top of emerging industry is to first watch consumers; second, determine what Silicon Valley investors are interested in; and third, find the disruptors in the marketplace. This means looking outside the credit union industry.”

WHAT SHOULD CREDIT UNIONS BE DOING TO PREPARE FOR NEW TECHNOLOGIES?

We know more technology is coming, not less. We also know that getting more data sources means more data to aggregate and analyze. “Getting a grasp on their data is essential for credit unions. This includes getting the infrastructure in place to effectively store, manage, and analyze their data. Credit Unions need a data model that integrates all of their data into a single source of truth,” according to Austin Wentzlaff.

Credit unions need to be prepared to outsource the time-intensive technology and data systems that take away from your agility, maintains Coastal Federal Credit Union’s Chief Information Officer, Kris Kovacs, who is often quoted in industry publications. Outsourced projects and applications need to be integrated into the credit union’s core and data warehouse if they are going to be useful in attaining a true 360-degree view of the member and the member experience “With the best member and credit union features and functions.” Delivery of products and services in the area of emerging technologies needs to become more consistent, streamlined, and as friction-free as possible. Consumers are looking for “click and buy” or “swipe and buy.” The minute they feel friction has become excessive, they go to their browser and find another provider with less friction.

SUSTAINABILITY / SCALABILITY – “Newer technologies often come to market at a high cost and with an unproven track record for ongoing maintenance costs/investments,” according to Ben Jordan. There is always an element of risk that needs to be assumed by the credit union. Having the tools to measure and understand innovation risk and knowing the credit union’s risk tolerance are very important. The willingness to walk away from a bad investment must always be on the table; don’t get too “bought in” if the data is telling you it’s not working, scalable, sustainable, or being adopted. On the flip side, after basic due diligence, don’t be too slow in undertaking an implementation.

SKILLS – Too often software is purchased without knowing exactly what the credit union needs to know or the skills they need to have in order to fully understand and leverage the technology. Emerging technologies complicate this decision process even more. Credit unions need to fully understand not just what the software or application can do, but what the credit union needs in the areas of staffing, training, authorities and skills. The alternative is being willing to engage a third party to maximize the credit union's technology investment. "Technology is a tool to help credit unions succeed in serving members, but technology seldom runs itself," warns Jordan. "It takes the appropriate skills, experience, and focus to use these tools to create value."

CUFX Standards (CUFX), a strategic initiative of CUNA Technology Council, and many credit union vendors are working hard to make integrations easier. They are building and implementing a standard for integrations that will remove a significant percentage of the professional services expense, resource allocation, and time to market.

DELIVERY METHOD – Analyze your service delivery model - both branch delivery and remote delivery. Are the processes, compliance, delivery culture, and risk mitigation efforts consistent? Are the methods easy to use? Ben Jordan made the point that "*Synergent* focuses on providing services to credit unions with an attention to value. We are looking for that product that serves the member needs first."

CHANGE CULTURE – Credit unions constantly struggle with change management, but it goes beyond just managing organizational change. It also includes creating a learning environment that will enable employees to become experts in using new technologies. Creating an expectation and having training and/or incentives that will get credit union employees to become adopters of the new technologies is the first step to member adoption and the success of the technology. Ben Jordan adds, "Credit unions must also adapt. They must be aware of change—search for it, and experiment with it." Change leadership occurs when senior management demonstrates how they embrace and adopt change.

Credit unions are often not seen as true digital competitors. There is a clear opportunity to improve the credit union's image in the digital and emerging technology space. Ben Jordan states, "Communicating and teaching are as important as the technology itself. Videos, landing pages, and 24/7 available resources—as well as in-branch "Technology Nights" or "Tech Coffee Breaks"—help solidify the relationship with the member, their technology, and the credit union's service."

"Build a strategy around innovation and analytics and hire and train accordingly. This is done by developing a data strategy and innovation think-tank to make data analytics and innovation a part of the culture," according to Austin Wentzlaff.

Having the technology tools is not an advantage if the members don't know you have them or how to use them. Marketing and member-facing staff must align to do everything they can to teach, coach, and make members aware of new technologies.

Having your "power users" review products and services is a great way to remove any unnecessary process or friction and to improve the member experience. When implementing new processes, some credit unions have also used the "slow" or "no" adopters as a focus group in order to understand why they won't adopt the new technology. Credit unions can then use this information to enhance the user experience and/or improve their marketing of the technology.

LOOKING INTO A CRYSTAL BALL, HOW WILL SOME OF THESE TECHNOLOGIES AFFECT CREDIT UNIONS?

"These technologies are coming from outside the traditional credit union marketplace, and they've been tested and perfected in the for-profit world. They can easily disrupt our business if we don't provide our members with an alternative. But they won't disrupt our entire business at once, but rather one service or product at a time ... the proverbial death by a thousand cuts," is how Kris Kovacs sees the risk for credit unions. This incremental impact or disruption can create a sense of false security for credit unions if they don't have a strategy to address their competitive position. It is too easy to make short-term adjustments or fee restructures as each of these incremental hits to the credit union's service offering or revenue stream is realized. These incremental hits will continue to multiply and credit unions will lose their competitive edge and financial advantage. Disruption, regardless of how small, will not be managed with short-term fixes; it requires a strategic focus.

To manage the impact of innovation, Ben Jordan advises, "Senior credit union professionals must develop analytical thinking around which technologies would most benefit their members, and how they can provide the best-of-breed new services to their members. There will be many opportunities, and at times more technology solutions than are needed. This crowded field requires determining what is most needed by the credit union, conferring with trusted advisors, developing the strategy, and implementing it." Make certain your credit union isn't wasting time and money on implementing and/or integrating applications or services that are not sustainable, and be able to ascertain when to sunset a technology. Having a digital and data strategy focus will help to ensure that the credit union concentrates on technologies that bring the most value to the member and provide long-term service efficiencies.

"I believe that in 2016 and moving forward, adopting new technologies is really a do or die situation. Credit Unions that fail to change and leverage the new technologies available to them or are slow to change will ultimately fail. The mobility makes it very easy for members to leave an organization and find another that better meets their needs," according to Austin Wentzlaff.

The future will still focus on service delivery when and where the member wants it and having the data to understand what the member wants and how they are using these channels. Technologies will enable credit unions to move closer and closer to a 24/7 service model. Lobby hours will likely not define service access or satisfaction in the future. Consumer expectations keep moving to access when and where they want it and will not be dictated by lobby or call center hours.

Emerging technology adoption will continue to require improved change management and change leadership by credit unions. There may also be new roles and responsibilities in credit unions to manage this change. "Change is hard, and it is a boon to have a Change Cheerleader, a person who wakes up each morning not only ready to embrace the change, but also objectively looking at trends and technologies to decide which change to implement," Ben Jordan asserts. "It can be a job function for your senior management team, or a part of each status meeting - any consistent approach that keeps change at the forefront of credit unions' goals in an ever-changing world."

Not every new technology will fit every credit union's business model or member. Credit unions need to have a consistent and ongoing dialogue on how they plan to manage and implement changes brought on by emerging technologies. Kovacs maintains, "Too many credit unions are watching the industry change around them. Like the frog in the pot – you have to jump out into the fire." Credit unions can't wait and watch too long. They need to create a change culture that is eager and ready to adopt emerging technologies; it is a strategic imperative.

KEY TAKEAWAYS

1. Emerging technology (FinTech) will shape member behaviors and the credit union's operational focus continually into the future
2. Credit unions must have a clear understanding of their risk tolerance and appetite for new products and service offerings coming out of innovation and FinTech
3. Data must become a strategic initiative for credit unions and must be used to drive our understanding of the member and our strategic and operational decisions
4. A digital strategy must drive the focus and direction of credit union resources and budget allocation if credit unions are to compete into the future
5. Data will either cause us to fail or succeed as an organization based upon our ability to aggregate, store, segment and understand it
6. The culture of the credit union must evolve to become adaptable and ready for fast change
7. The service model of credit unions must transform to allow members to engage them with the same context and confidence as the traditional face-to-face model

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  Leading2Leadership LLC is a strategic consulting firm specializing in helping credit unions create sustainable Business Intelligence, Digital Transformation, Marketing and Business Development strategies. In addition we work with financial institutions helping them align their culture with their brand and helping them define and develop their leadership culture and succession plan.

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