

# The Way Forward: Embracing Innovation in Financial Services



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What stands between your credit union and the growth you strive for? There is a case to be made that the key to sustainable growth is innovation. We must start by realizing that what worked in the past will not necessarily work in future. Thinking that old methods will continue to serve is a sure path to irrelevance.

Traditional credit union values, such as personalized, high-level member service will never be outdated, but the technology, tools, and procedures used to deliver that service to the modern member must be continually reviewed, reconsidered, and improved.

Unlike the big banks, most credit unions cannot throw massive resources into technological innovation. Overcoming this requires creativity, cooperation, and the ability to make smart choices. These are qualities to cultivate for both your everyday operations and long-term planning.

## WHAT IS INNOVATION?

True innovation doesn't involve being the first to do something, or to dazzle with a fancy new gadget or novel capability. Innovation solves problems and gets objectives met in a more effortless and economical manner. It increases member convenience.

Members want digital access to services across devices; personalized information about saving and spending, and advice about handling their finances. Innovation fulfills these desires in ways that are easy, fast, and enjoyable. Today's account holders also want to choose *how* to use these services, so pioneering products must be flexible and customizable. The end users should call the shots on how to apply what is being offered in their day-to-day lives.

Inside the credit union, innovation means a culture open to experimentation and receptivity to new ideas from any direction. Although strong, smart leadership is required, the process of generating new concepts should not (and probably cannot) be a heavy-handed, top-down affair.

## MOTIVATION TO CHANGE

Why do you need to make innovation a part of your business model? Here are three reasons.

### 1. Innovation is clearly tied to growth.

A study by PwC (PricewaterhouseCoopers)<sup>1</sup> examined companies on its list of Top 1000 research and development (R&D) spenders. As in previous PwC research, the 10 most innovative companies outperformed the top 10 R&D spenders on a standard set of financial growth metrics. "Not only did faster revenue growth companies have high alignment of business and innovation strategy, they were also more likely to have high cultural support of innovation."

"Roughly half the companies participating in PwC's Innovation Benchmark think that their innovation efforts have had a 'great' impact on driving their growth, with an equally significant impact on cost management."

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## 2. You want to meet the challenge of new financial technology businesses that offer enhanced user experience and low costs.

This is the fintech challenge. As more businesses enter the market with digital solutions for lending, payments, insurance, and more, credit unions must become more agile and modern. If you want to stay relevant, you need to attract and retain young, early adopters of new technology. Don't cede these valuable members to start-ups. Instead you can partner with these companies, or look to your existing technology providers, many of which are moving to upgrade digital offerings so you can serve the modern member.

## 3. There are too many possibilities and opportunities created by new technologies to continue as before. Credit unions that integrate innovation into their way of doing business can better take advantage of change.

Consider how the world has changed in the last decade. Information technology is continually generating new possibilities. For example, cheaper memory, digital transmission, faster processing, and other breakthroughs quickly led to sophisticated cloud-based services, and more changes are always coming. Simplified programming tools are opening innovation to a larger number of entrepreneurs. There is no stopping the flood of invention, and credit unions must learn to surf these waves of change and not be overwhelmed.

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## IMPLEMENTING INNOVATION IN YOUR CREDIT UNION

There are numerous ways to keep innovation thriving. Credit unions must decide what works for their organizations and how to implement changes. Below are six suggested ways of implementation.

### 1. Develop a culture of innovation.

"...the proportion of companies reporting breakthrough or strong financial performance was five times greater (90%) among those that focused on culture ... nearly 80% of the companies that focused on culture sustained strong or breakthrough performance." Boston Consulting Group<sup>2</sup>

Without the right organizational culture, innovation will fail. If you want to cultivate change and generate new ideas, demonstrate that you are serious. Build innovation into your business objectives and goals and follow through to meet those objectives. An excited and supportive management team makes all the difference in a successful change. Some ideas:

- » Evaluate the culture of your organization and its teams regarding support for innovative thinking. How do you currently encourage creativity, react to new concepts, and respond to change?
- » Create and fund a group within your credit union to develop new ideas and another group to assess them.
- » Reward employees for creative thinking, focusing on the process of generating and trying new ideas.
- » Employees should know that failure or rejection of some new ideas is acceptable and even expected. A failed idea should not shut off the creative flow of new concepts.
- » Be sure your mix of new employees includes young people and listen to their ideas with an open mind. Along the same lines, request feedback from younger members and listen to their needs.
- » Have a reliable change management methodology because innovation requires it.

- » Create a structure for creative thinking. David Peterson, a strategy consultant, suggests the incorporation of “thinktime” into the workday. This idea includes (1) Enabling employees to go, alone, to a distraction-free place to consider new ideas. (2) Giving employees an allocated time for focusing on a particular issue and recording new ideas. (3) Staying in this location and continuing idea generation for the entire allocated time. (4) Being self-confident and not allowing doubt and self-censorship to hinder creativity.

“Roughly two-thirds of innovating companies say that bringing in employees with fresh thinking and establishing innovative behaviors and culture are the most critical success factors for innovation, well above other criteria, such as increasing the innovation budget or establishing a clear business model for innovation.”  
PwC<sup>3</sup>

## 2. Make full use of member data.

One advantage credit unions have over fintech organizations is knowledge of their members’ needs and desires. Innovative credit unions will find new ways to employ this data for retaining members and creating invaluable testimonials that bring in new members. Prioritizing data can make a world of difference when it comes to credit union success. With the right data, you can make informed decisions that increase member retention, improve employee satisfaction, and drive revenue. The data can be captured and analyzed to learn:

- » What individual members are using your institution for – and how you might expand their services.
- » How members are making use of your credit union – and how to improve their experience.
- » How you can build relationships and fine-tune your offerings.

It’s critical to use this information to help members and make them feel cared for, important, and catered to, as opposed to simply targeted for advertising.

When change is the standard of doing business, connectivity and flexibility are imperative.

## 3. Take advantage of hosted services.

Among the many benefits of cloud-based operations is the ability to switch gears quickly and to rapidly pilot new ideas. A credit union’s IT department can be overwhelmed by this need, while hosted services can more efficiently accomplish revisions and reduce time to market. A superior hosting vendor will be familiar with credit union technology, understand your needs, and institute the changes you request rapidly.

## 4. Use a core foundation with open architecture.

Required for innovation – readiness to connect with anyone and anything. Your core processor should offer an expandable, customizable platform so you can develop the business models and sales strategies that optimize your openness and maximize opportunities to gain new members and deepen existing member relationships. You need to not only connect to third-party vendors, but it should be relatively easy to do so. When change is the standard of doing business, connectivity and flexibility are imperative. Acquiring a truly open and customizable core processor will ultimately save money and promote your survival.

## 5. Collaborate with tech experts.

When resources are limited, alliances come to the rescue. As mentioned earlier, rather than fighting fintechs, some institutions are managing successful partnerships with them for service offerings. Others are allying

themselves with credit union service organizations (CUSOs) to take advantage of the economies of scale and get a wider range of products.

#### 6. Carefully choose your primary technology partner.

Another important collaborator is your core processing technology provider. Your core touches practically every interaction you have with your members. It's the heart of your personalized member service, your innovation, your efficiency, and your future. This provider should offer an array of dependable, innovative products and services that you can turn to your advantage. In addition to great products such as data warehousing and analysis applications, the partner should ideally have:

- » Strong vendor management to facilitate open banking and allow integration with third-party solutions.
- » A solid, reliable infrastructure for cloud computing and hardware hosting.
- » The research and development clout to continually advance its offerings – particularly with key technologies such as analytics.
- » Managed IT security so you can focus on your strategic goals.

“With so much riding on technology, it's no wonder that half of companies rate technology partners as their most important innovation collaborators. Technology partners outrank all others, except internal employees.”  
PwC<sup>4</sup>

## INNOVATION IN ACTION

Institutions are building innovation into their management structure. An article in the *Credit Union Journal*<sup>5</sup> pointed to examples of credit unions creating a chief innovation officer (CINO) to manage and maintain a focus on advancing, expanding, and modernizing member solutions.

The article quoted Lindsey DeBartelo, Director of Innovation at **Blackhawk Community Credit Union**, about why the position was created.

“... to provide the technology that allows members to choose how they want to do business with us and in whatever channel they prefer,” said DeBartelo. “To accomplish this, our credit union needed to capitalize on current technology infrastructure as well as continue to implement innovative new products and services.”

An example of offering new services is the credit union's partnership with MoneyDesktop (now MX) to give its members the MoneyDesktop PFM solution.

Travis Frey, the CINO at **Dover Federal Credit Union** was also featured in the *Credit Union Journal* article. He emphasized the need to unify IT and Marketing to effect change.

“You have to look at your capacity, your capability, and maximize your team's efforts,” said Frey. “Within my role as CINO, I am able to unite marketing and IT, so that the critical areas which impact a member's experience work succinctly together, from the start of development to the finished product.”

## THE WAY FORWARD

It's clear that in today's environment, everyone must innovate to compete and successfully serve modern members. The changes keep coming. We can expect advances in person-to-person payments, data analysis, chatbots, pricing and profitability, and automation/self-service as physical branch footprints contract.

The point is not to predict what will come, however, but to be ready to capitalize on the inevitable changes that will send waves through the industry. The strategies we have discussed fall into three areas:

### 1. Support creativity.

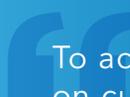
Build innovation into your business objectives and operations. Promote and reward creative thinking across the organization. There must be whole-hearted management buy-in.

### 2. Build a flexible technology foundation.

In general, hosted services and open architecture support nimbler business strategies.

### 3. Look for partnership opportunities.

In the right circumstance, a fintech, CUSO, or other entity can help you achieve your goals. Use a core processing/technology vendor that offers innovative products, a strong infrastructure for cloud computing, and a solid research and development commitment.

 To accomplish this, our credit union needed to capitalize on current technology infrastructure as well as continue to implement innovative new products and services."

No matter how you embrace innovation, don't forget your "ace in the hole" over disruptive online financial service companies – your personal relationship with members and your trove of data about their needs and desires.

## SOURCES

- <sup>1)</sup> *Global Innovation 100: What the Top Innovators Get Right*. PwC, October 2018
- <sup>2)</sup> *It's not a Digital Transformation without Digital a Culture*, bcg.com April 2018
- <sup>3)</sup> *Reinventing innovation: Five findings to guide strategy through execution*, PwC, 2017
- <sup>4)</sup> Ibid
- <sup>5)</sup> *C-Level Role of Innovator on the Rise at Credit Unions*, Credit Union Journal, 9/6/17