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AN EDGE CONSULTANCY, LLC NEWSLETTER

OUTLOOK FOR THE CREDIT UNION INDUSTRY

5 Key Issues Impacting our Industry: Edge Consultants' Perspective

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Key Issue #1 – Disruptive Innovation

Implications: New entrants (the FinTech's) to the financial services space for payments (Venmo), lending (market place lenders) and deposits (online banks) are leveraging the latest technology to gain market share without incurring the legacy expense base (branches, personnel, in-house core systems, etc.). They are able to provide more convenient and cheaper solutions. In addition, many of these providers aren't saddled with the same level of regulatory burden or imbedded cultures that in many cases creates barriers to innovation in credit unions.

There is also a technology revolution occurring in Data Analytics. Finally, FIs are recognizing that Data has become their most valued asset: it provides an ability to create market knowledge, enhance channels and service, and tailor individualized offerings on an unsurpassed scale. The largest banks are investing heavily in this area.

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Edge's Perspective: Due to their relatively small size, credit unions can respond faster to changing market conditions and be active leaders by partnering with many of the new entrants. The caveat is to ensure the partnership is consistent with and supports the credit union model and culture.

We are also seeing credit unions form CUSOs and industry partnerships to gain access to the new technologies at reasonable

ABOUT EDGE CONSULTANCY

Edge Consultancy, is headquartered in Miami Beach, Florida and is the premier consulting organization created to address the most complex issues facing financial institutions today teaming with the most experienced and proven advisors in the Industry. Their unique consultative and inclusive approach has produced powerful and measureable results. The Edge specializes in strategy, growth, technology, shared services, risk analysis and operations. To learn more about how the Edge Consultancy can help you, go to: **edgeconsultancyllc.com** costs and create the scale they need to effectively compete. The ability to collaborate against the challenges of the FinTech's, is a core strength of credit unions.

We suggest a complete review of your digital, payment and data strategies. We also suggest considering CUSOs and partnerships to create the necessary competitive scale. Never has there been such an opportunity to level the playing field by using innovative technology and realizing great opportunities.

Key Issue #2 – Excessive Regulation

Implications: Regulations and the associated compliance burden continue to increase at a dramatic pace. It's estimated that a minimum of 10-15% of total operating expenses at most community institutions are spent on regulatory compliance. For several institutions that figure may be much higher because of their business model. Having to allocate a significant portion of scarce resources to efforts that create little or no value also diminishes the ability to innovate and compete.

Edge's Perspective: Compliance is not an area to gain strategic advantage. Consequently, this is one area where it makes a great deal of sense to share resources and collaborate with other like-minded institutions in CUSOs or shared services. We are aware that a few organizations are actively pursuing this option.

Key Issue #3 – Unwieldy IT Integration

Implications: Most credit unions continue to operate on core systems with legacy, proprietary databases that makes integration with new, best of breed solutions expensive, time consuming and unnecessarily complex. Consequently, the ability to quickly deploy solutions that either create efficiencies or meet member demand is greatly diminished. Not only are they unable to keep up with the pace of transformation in today's ever-changing world, but in many cases, they continue to fall further behind the competition.

Edge's Perspective: Institutions still utilizing legacy core systems need new cores. Recognizing that often core conversions can be costly and painful, we advocate joining with other credit unions who utilize the same legacy system in a technology CUSO. This has proven to be extremely successful - increasing the flexibly, speed to market and lowering the costs.

Additionally, new system searches ought to be done through new approaches that cut the time and cost in half. New techniques have evolved involving collaborative solutions with selected vendors in a partnership structure; rather than the adversarial long drawn out procurement process of yester years.

Another Interesting Article:
Marketing at the Top
by, Mark Weber
https://www.cues.org/article/view/id/Marketing-at-the-Top#.WH54u79Z57U.email

Key Issue #4– Market Perception/Lack of Differentiation

Implications: 40% of consumers' lack awareness regarding their ability to join a credit union. Even those who have this understanding, have the perception that the products and services offered are limited and the technology solutions aren't comparable to the mega-banks. While there is a preference to "bank" locally, credit unions are stigmatized by often inaccurate perceptions.

Edge's Perspective: Like the disruptive innovation issue, credit unions should not be shy about aggressively spreading the word via social media about inventive and original service offerings that they have created.

Unfortunately, there's not enough pioneering happening, and the result is typically more "me too" marketing which only compounds the issue. Now is the time to actively access social media marketing channels, effectively utilizing data as the backbone to the marketing operation. Data and analytics are just as important in marketing as is creativity.

Key Issue #5 – Dysfunctional Merger Creation

Implications: While the industry continues to consolidate, the clear majority of credit union mergers are still the result of unhealthy or very small institutions being forced to merge. The current regulatory environment and structure actually exacerbates this problem while creating artificial barriers that discourage healthy institutions from pursuing partnerships that would typically result in greater diversification, efficiencies, competitiveness and member value

Edge's Perspective Healthy institutions can certainly begin by exploring shared services partnerships, learning the appropriate give and take necessary to create a collaborative environment between multiple institutions. Just as in relationship building, as the understanding, comfort level and mutual respect are increased, shared services could be a precursor towards a merger in a much more productive manner that avoids the immediate sense of "winners and losers" that mergers often result in.

Credit Unions above peer average in expenses should commence a review all alternatives to lowering costs. Expenses are one thing every company and institution has control over.

In addition, scale always matters in retail transactional businesses. Through sharing, smaller credit unions can quickly build the same scale as their larger competitors.

Where mergers are the right alternative in some situations, we highly recommend that the governance, cultural challenges and business opportunities be thoroughly reviewed and understood before the merger is consummated. The success of the merger is directly proportional to cultural adaptation and the management of the change required.

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