



A NEW FINANCIAL SHOPPING EXPERIENCE

CONCEPT DOCUMENT

MemberEQ

TEAM CHEERS

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PROBLEM DEFINITION

How might we make it simple for digital natives to join a credit union?

Though the term digital native is not restricted to individuals of a certain age, it is strongly correlated to a demographic that is key for credit unions' future relevance – millennials. The largest existing demographic group, millennials will make up 75% of the workforce in less than a decade. They are in, or entering, their prime borrowing years, and their annual buying power is estimated to be \$200 billion (Forbes, 2015).

Increasingly, preferences among non-millennials are aligning with the digital native persona as well, with 70% of likely checking account applicants of any age stating they would prefer to submit a digital application (Digital Banking Report, 2015). While many financial institutions offer online applications, they fall short of user expectations. In fact, *the current rate of online account opening abandonment is 80%*, according to a Mobile Strategy Partners study. As a result, 61% of consumers visit branches in order to open an account.

Offering digital natives the credit union experience primarily through a branch is not sustainable. As a generation whose dominant influence is lifelong exposure to digital channels, they can and will flock to providers that align the buying experience to their preferences. Competition for their business is fierce, with fintech outperforming traditional financial institutions in the delivery of digital services – and billions of dollars flowing into alternative, tech-driven solutions every year. Credit union management is aware of their relative shortcomings: 71% of credit union executives surveyed by Team Cheers report their onboarding and online shopping experience is not simple, while 95% stated their processes need to be improved.

Fortunately, new mobile account opening solutions are coming to market with the potential to address these issues. However, on a more nuanced level, a TimeTrade survey (2015) shows that 56% of consumers abandon online banking forms because they do not feel confident in their product selection, which suggests that convenience is merely a starting point.

In most cases, consumers shop for a financial service, not a service provider. When they look at a credit union website and see they have to join before they can use the service they want, it poses yet another obstacle to acquisition. While we can't eliminate that barrier, we can circumvent it while also reducing friction in the service application process and providing personalized guidance for product selection.

INNOVATIVE SOLUTION

MemberEQ (Easy Qualification) propels the online account acquisition formula to a new level, delivering a digitized pre-qualification process that reduces friction and provides value through time savings and personalization.

MemberEQ is an online tool credit unions will deploy to help potential members discover the services they qualify for prior to completing the processes of joining the credit union and executing multiple product applications. By combining information collected from credit data, public data and just six multiple-choice non-financial questions, MemberEQ delivers a personalized slate of recommended services to match the persona that emerges from an automated, immediate assessment of all data points. The user benefits not only from saving time spent completing applications for services he or she may not qualify to use, but also attains confidence that the services selected are a good fit.

Once the user clicks “Start Now,” he or she is asked for a few basic details: Name, address and last four digits of their social security number (plus email) – sufficient for acquiring extensive information for the financial profile from a credit bureau and public records.

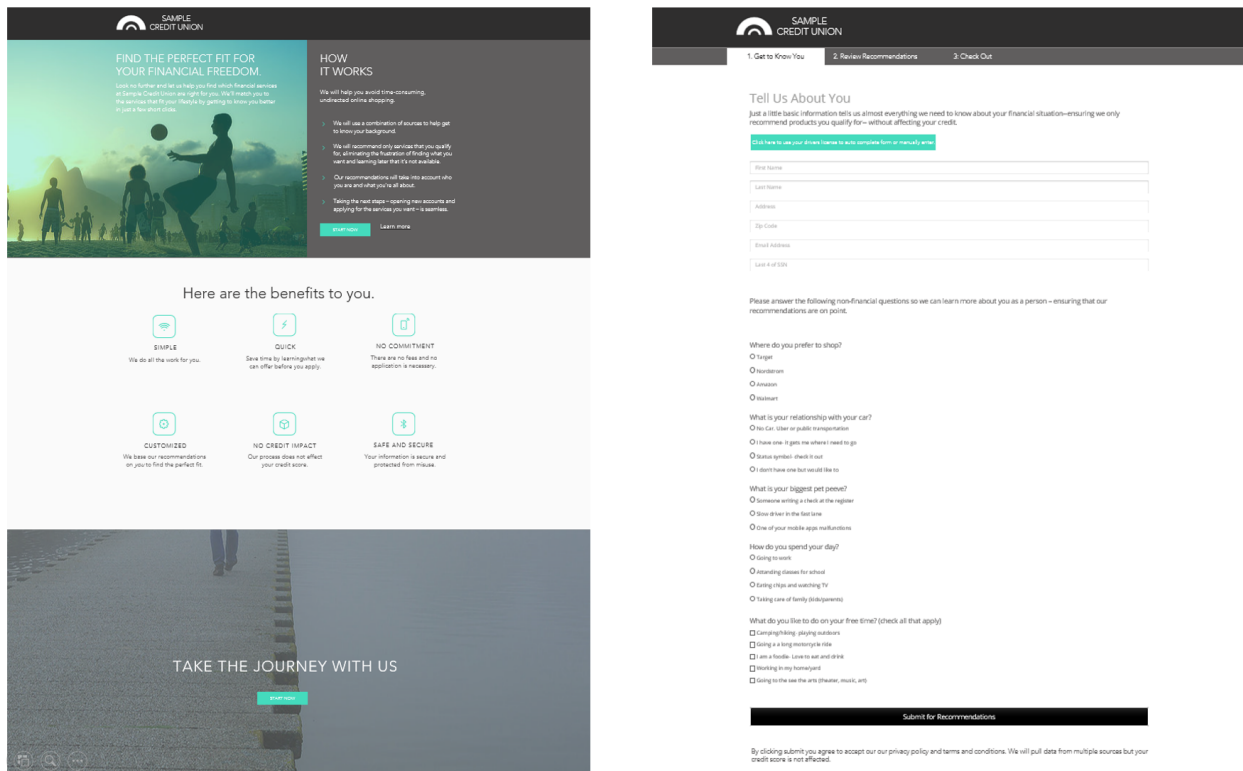
MemberEQ then presents six light-hearted, non-financial questions with no obvious tie-in to the credit union product set. These questions are designed to help credit unions fill in the gaps with personal details that make up a comprehensive persona, allowing personalization of product recommendations based on details such as whether the respondent is a student, might want to borrow funds for travel or other past-times, or is in need of a car. Further, these questions suggest the credit union is interested in getting to know the applicant on a more personal level – an important part of the credit union brand. The fully formed solution will include functionality to match personas with the products on offer from the specific credit union, excluding any the applicant is not qualified to use.

PROTOTYPE

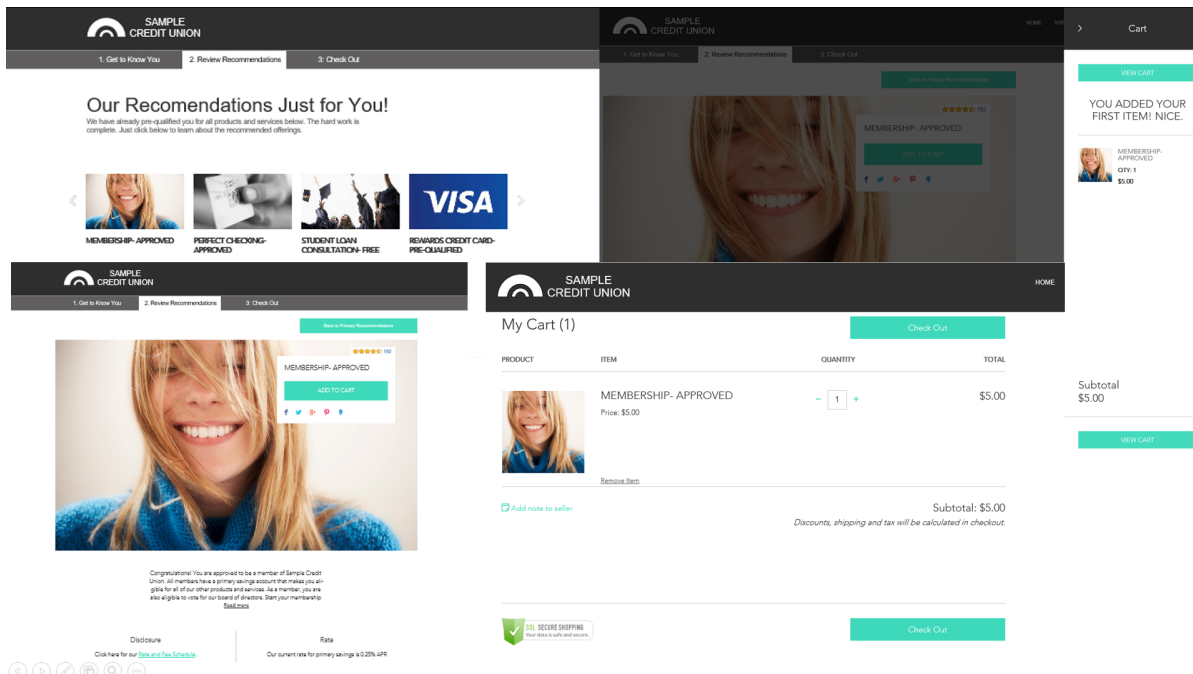
Team Cheers built a web-based prototype (for desktop and mobile) of the MemberEQ solution to provide testers with a realistic experience similar to what they would encounter using the fully-formed solution. The decisioning-engine does not yet exist, though Team Cheers validated accessibility of the information and viability of the functionality through conversations with multiple third parties including credit bureaus and online account opening service providers.

The web pages include a home page with description of the service and its benefits, a profile-building page, a recommended products page and individual product pages with descriptions, a shopping cart, and links to additional relevant information.

Visual 1 – Home Page and Getting to Know You



Visual 2 – Recommendations and Shopping Cart



TESTING AND RESULTS

Survey:

Team Cheers sent a web-based survey that garnered 24 responses from credit union executives, asking a series of questions about their credit unions' current online account opening and shopping experience. The survey also asked about current and desired practices surrounding the use of credit bureau data to prequalify applicants and match them to the services they need. Nearly all respondents indicated a need to improve their online shopping/onboarding experience (95%) due to short-comings such as the process being too cumbersome, long or complicated. Importantly, 79% indicated that their credit union would benefit from the ability to pre-qualify interested parties for service eligibility prior to requiring a full application, and 92% indicated that they would benefit from being able to profile applicants to match them with appropriate products. (See Appendix I for complete results.)

Prototype Test:

Team Cheers presented the prototype to 10 unaffiliated individuals aged 18-30 for live testing through the UserTesting.com website. This process included developing a script for testers to follow as well as questions for them to answer before, during and after the test experience. Each live test was 10-15 minutes in length and was recorded for review. The testing was executed in phases, with the team making minor modifications to the prototype based on feedback received from each group. Key insights:

- Nine of the 10 respondents stated they would use the type of service presented during the prototype.
- Testers indicated that the site was easy to understand and very simple to use.
- The first testers did not like the multiple choice questions, believing them to be insufficiently serious or financial in nature to be useful. Rather than abandoning these questions, Team Cheers made two types of revisions to the site to address the problem:
 - Provided a brief rationale for asking personal, non-financial questions, as respondents did not seem to realize that the basic data (Name, Address, four digits of social) would give the institution access to the majority of their financial information.
 - Changed the imagery to be less serious in nature and more reflective of the digital native lifestyle, in order to bridge the disconnect between the business-like visuals and the light-hearted questions.

After these updates, the reaction to the multiple-choice questions improved substantially and universally among the remaining testers.

- Testers had strong appreciation for product ratings and reviews that were illustrated with star ratings on the site. Credit unions will have to weigh the risk-benefit of including reviews because unfavorable feedback would most likely cost them business.
- Tester willingness to share personal information is tied to their belief that the system is secure, which in many cases was further attached to a pre-existing familiarity with the institution (underscoring an ongoing awareness challenge for credit unions).
- Testers made numerous comments about style and imagery on the site, indicating a sense of personal connection and the perception that the site is progressive relative to other online banking experiences.

BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA

Team Cheers recommends a per-application fee pricing model for MemberEQ. The price is based on costs incurred from integration with a third party partner and overhead. Clients also would incur a setup fee for initial integration. The pro forma financials shown below reflect conservative adoption with the number of clients ramping up over time as credit unions continue to focus efforts on attracting the digital native demographic.

MemberEQ Three Year Financials				
# of applications/month	Tiered Pricing	Number of applications--Annualized		
		Year 1	Year 2	Year 3
1-100	\$10.75	2,400	3,600	7,200
100-300	\$10.25	10,800	18,000	28,000
300-600	\$9.75	9,000	12,000	14,000
over 600	\$9.25	7,200	14,400	21,000
Total Applications		29,400	48,000	70,200
Annual Income from Applications				
		Year 1	Year 2	Year 3
		\$ 25,800	\$ 38,700	\$ 77,400
		\$ 110,700	\$ 184,500	\$ 287,000
		\$ 87,750	\$ 117,000	\$ 136,500
		\$ 66,600	\$ 133,200	\$ 194,250
Total Application Income		\$ 290,850	\$ 473,400	\$ 695,150
One Time Set Up Fees:	Number of CUs	20	60	100
	Set up fee	Year 1	Year 2	Year 3
Below \$100 Million	Waived	\$ -	\$ -	\$ -
\$101-\$200 Million	\$1,000	\$ 2,000	\$ 5,000	\$ 10,000
\$201- \$500 Million	\$1,500	\$ 4,500	\$ 15,000	\$ 30,000
\$501- \$750 Million	\$2,500	\$ 10,000	\$ 20,000	\$ 40,000
\$751-\$999 Million	\$3,000	\$ 9,000	\$ 36,000	\$ 45,000
\$1 -\$2 Billion	\$3,500	\$ 7,000	\$ 35,000	\$ 49,000
Over \$2 Billion	\$4,000	\$ 20,000	\$ 48,000	\$ 80,000
Total Set Up Fee Revenue		\$ 52,500	\$ 159,000	\$ 254,000
INCOME				
		Year 1	Year 2	Year 3
Revenue From Annual Applications		\$ 290,850	\$ 473,400	\$ 695,150
Revenue from one time set up fees		\$ 52,500	\$ 159,000	\$ 254,000
Total Revenue		\$ 343,350	\$ 632,400	\$ 949,150

EXPENSES				
Website Development		\$ 35,000	\$ 10,000	\$ 10,000
Programming/Testing		\$ 2,500	\$ 5,000	\$ 7,500
Website Hosting		\$ 9,000	\$ 11,000	\$ 15,000
Content Updates		\$ 1,000	\$ 2,500	\$ 5,000
Updates / Maintenance		\$ 1,500	\$ 2,500	\$ 10,000
Marketing		\$ 20,000	\$ 40,000	\$ 60,000
Compliance Reviews		\$ 8,000	\$ 10,000	\$ 15,000
Third party fees \$8.00 per application		\$ 235,200	\$ 384,000	\$ 561,600
Overhead Support/Adminstration		\$ 40,000	\$ 60,000	\$ 130,000
Total Expenses		\$ 352,200	\$ 525,000	\$ 814,100
Net Income(Loss)		\$ (8,850)	\$107,400	\$ 135,050

COMMENTS, NEXT STEPS, AND CALL TO ACTION

MemberEQ is designed to bridge the well-documented gap between digital natives' desired online application experience and the one offered by credit unions today – not by duplicating the work of other firms that are streamlining the current process, but by solving for additional pain points borne out by application abandonment research. Specifically, MemberEQ allows credit unions to start new relationships on the right foot by getting to know applicants better and helping them avoid the frustration of shopping for services they may not understand nor qualify to use.

Credit unions that want to tap into the value provided by MemberEQ should notify Filene of their interest and potential financial support for further development, which will include: negotiating and establishing agreements with one or more credit bureaus and online account opening solutions, refinement of proposed persona-matching criteria and functionality, and development of a fully-functioning front-end interface and internal decisioning engine.

ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

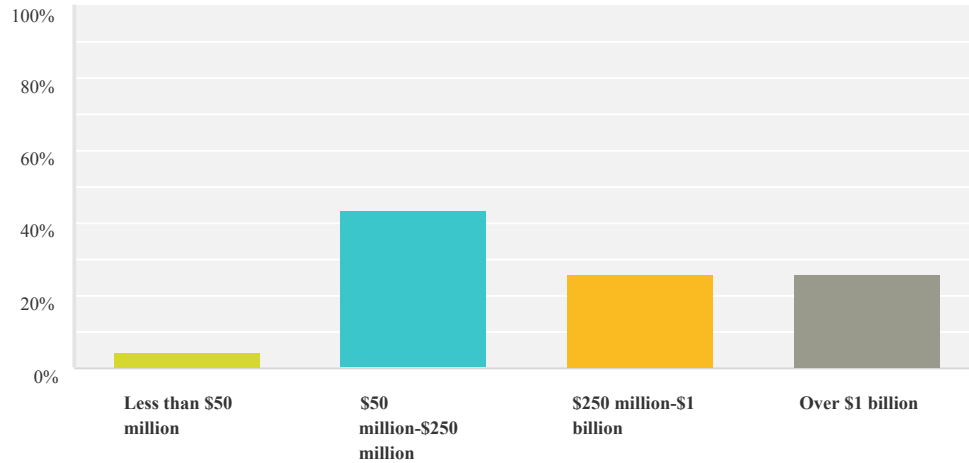
"Progress is the constant replacing of the best there is with something still better."

—Edward A. Filene



Q1 What is the asset size of your credit union?

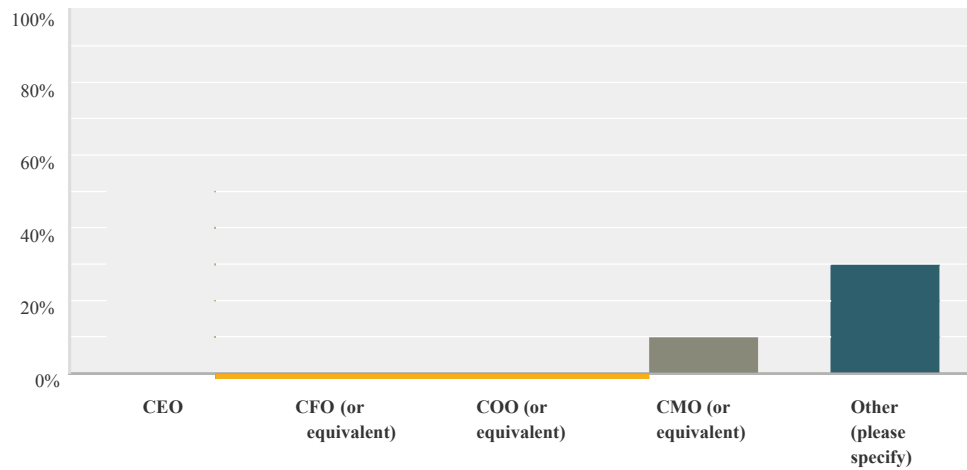
Answered: 23 Skipped: 1



Answer Choices	Responses
Less than \$50 million	4.35% 1
\$50 million-\$250 million	43.48% 10
\$250 million-\$1 billion	26.09% 6
Over \$1 billion	26.09% 6
Total	23

Q2 What is your position?

Answered: 24 Skipped: 0



Answer Choices	Responses
CEO	54.17% 13
CFO (or equivalent)	4.17% 1
COO (or equivalent)	4.17% 1
CMO (or equivalent)	8.33% 2
Other (please specify)	29.17% 7
Total	24

#	Other (please specify)	Date
1	Mobile Services Director	4/11/2016 1:46 AM
2	VP of Lending	4/8/2016 12:58 PM
3	AVP Marketing	4/8/2016 12:54 PM
4	Vice President Operations	4/8/2016 11:48 AM
5	EVP	4/8/2016 11:34 AM
6	Vice President	4/8/2016 10:31 AM
7	SVP	4/8/2016 9:39 AM

Q3 Does your credit union offer the following? (check all that apply)

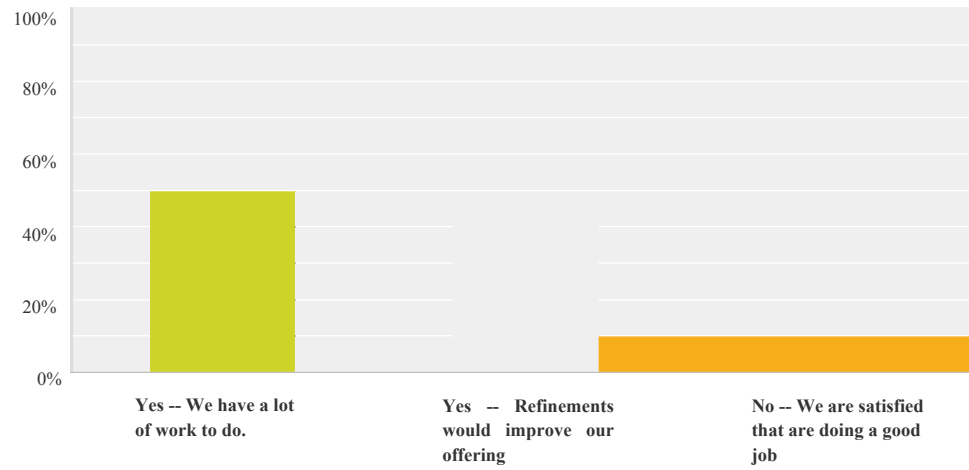
Answered: 23 Skipped: 1



Answer Choices	Responses	
Online account opening	69.57%	16
Online lending	100.00%	23
Mobile account opening	30.43%	7
Mobile lending	47.83%	11
Total Respondents: 23		

Q4 Could your credit union do a better job of capturing new members through online/mobile channels?

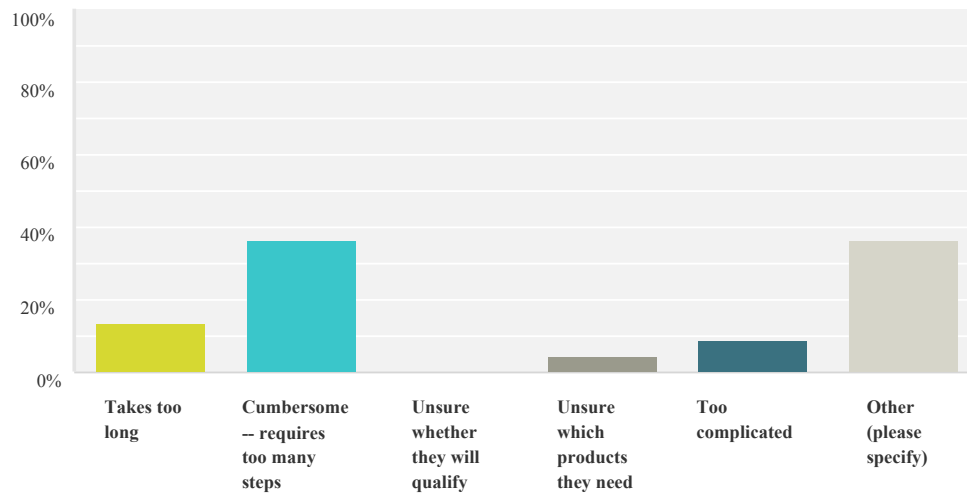
Answered: 24 Skipped: 0



Answer Choices	Responses	
Yes -- We have a lot of work to do.	50.00%	12
Yes -- Refinements would improve our offering	45.83%	11
No -- We are satisfied that are doing a good job	4.17%	1
Total		24

Q5 Why do consumers abandon the online account opening process?

Answered: 22 Skipped: 2

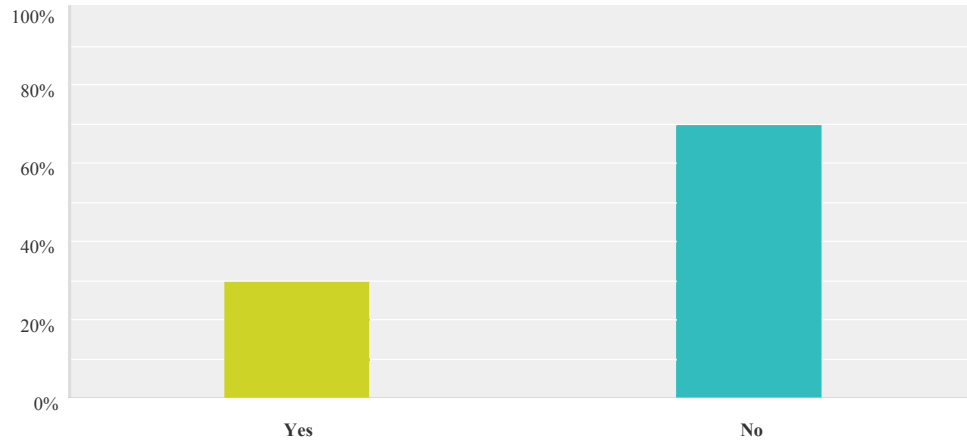


Answer Choices	Responses
Takes too long	13.64% 3
Cumbersome -- requires too many steps	36.36% 8
Unsure whether they will qualify	0.00% 0
Unsure which products they need	4.55% 1
Too complicated	9.09% 2
Other (please specify)	36.36% 8
Total	22

#	Other (please specify)	Date
1	Funding- giving credit card/debit card information online.	4/11/2016 12:40 PM
2	We used to offer it for several years and stopped for several reasons. We used a Fiserv solution. The capabilities were limited in terms of its ability to cross-sell and add products beyond a savings or checking account and look and feel of it was not very smooth. It still required some back end administration so it was not completely automated. We seemed to get a higher proportion of high risk accounts through this channel. Volume was pretty low relative to effort and cost. Consumer data continued to demonstrate that consumers desired an in-person interaction for account acquisition and use mobile and online channels for simple tasks or servicing of an existing relationships.	4/8/2016 1:17 PM
3	All of the above with our current process.	4/8/2016 12:58 PM
4	Since we don't offer it I'd have to guess as to why they abandon the process but I would assume many do not understand the user experience completely and make the process cumbersome or too complicated.	4/8/2016 12:54 PM
5	Do not offer it at this time	4/8/2016 12:09 PM
6	I believe it is the credit union's responsibility to get the message out to the consumers and then promote how easy it is. We do not have a complete process but we are making it "look like" online account opening until we have all the tools in place.	4/8/2016 10:19 AM
7	Not available through our core processor	4/8/2016 10:11 AM
8	not sure	4/8/2016 9:39 AM

Q6 Are your credit union's online shopping experience and onboarding processes simple?

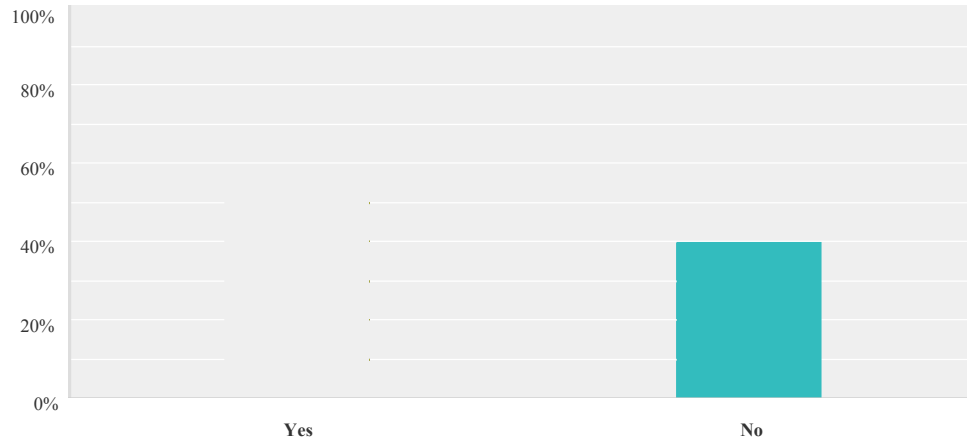
Answered: 24 Skipped: 0



Answer Choices	Responses
Yes	29.17% 7
No	70.83% 17
Total	24

Q7 In your credit union's online channel, is there a different account opening workflow for new members v. existing members?

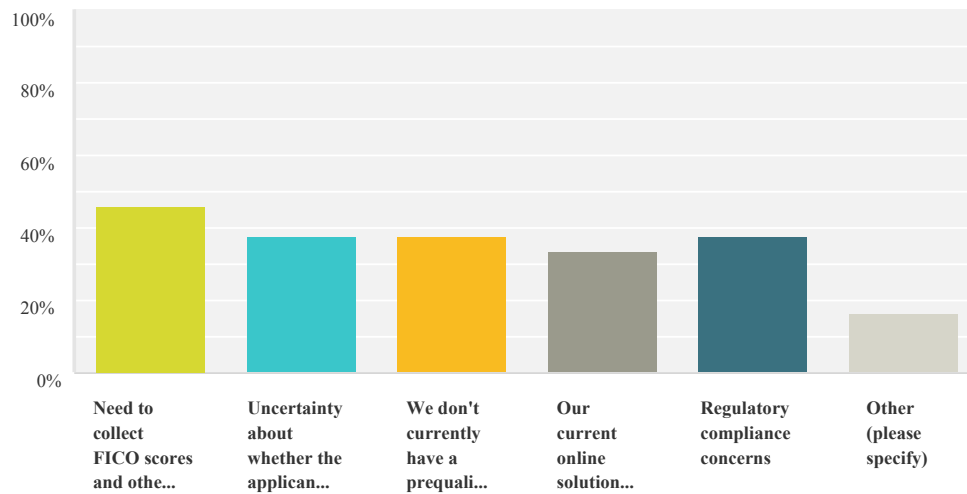
Answered: 24 Skipped: 0



Answer Choices	Responses
Yes	58.33% 14
No	41.67% 10
Total	24

Q8 What barriers would exist to pre-qualifying a consumer for a product prior to completion of the membership application? (check all that apply)

Answered: 24 Skipped: 0

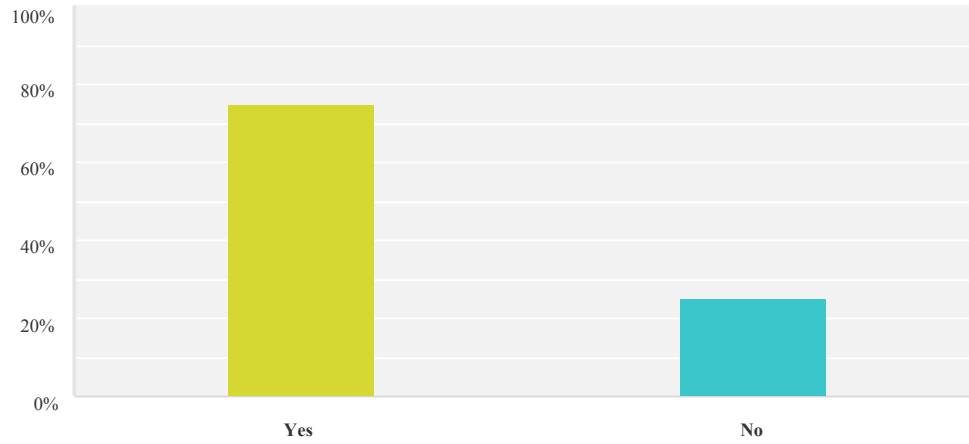


Answer Choices	Responses
Need to collect FICO scores and other data in order to offer services	45.83% 11
Uncertainty about whether the applicant is eligible for membership	37.50% 9
We don't currently have a prequalification program -- mobile or otherwise	37.50% 9
Our current online solution doesn't facilitate prequalification without a complete application	33.33% 8
Regulatory compliance concerns	37.50% 9
Other (please specify)	16.67% 4
Total Respondents: 24	

#	Other (please specify)	Date
1	The tool we previously used to attempt to qualify for FOM by asking the question about eligibility prior to the full application.	4/8/2016 1:17 PM
2	We provide it with our loan application but not our online membership app. Separate systems that would require additional set up and additional steps. The two systems don't integrate even though provided by same vendor.	4/8/2016 11:48 AM
3	In development of online membership application process.	4/8/2016 10:31 AM
4	not sure	4/8/2016 9:39 AM

Q9 Does your credit union currently use a credit bureau to perform pre-qualification analysis?

Answered: 24 Skipped: 0



Answer Choices	Responses
Yes	75.00% 18
No	25.00% 6
Total	24

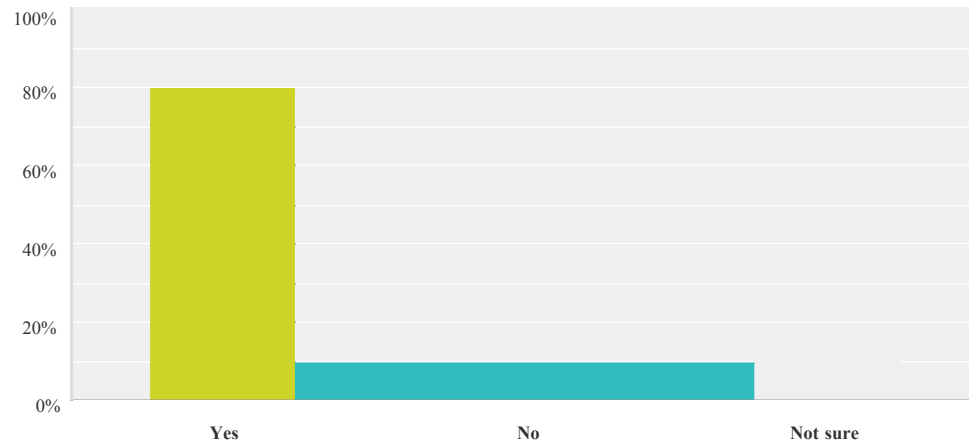
Q10 What is your credit union's current cost-per-acquisition for product applications?

Answered: 14 Skipped: 10

#	Responses	Date
1	Unsure	4/11/2016 12:40 PM
2	NA	4/11/2016 1:46 AM
3	I don't have the exact number.	4/8/2016 5:58 PM
4	I cannot recall what it was. We ended online account opening several years ago.	4/8/2016 1:17 PM
5	Unsure, but would be interested in the industry's number	4/8/2016 12:09 PM
6	unknown	4/8/2016 11:59 AM
7	about \$9 per application	4/8/2016 11:48 AM
8	Who knows	4/8/2016 11:34 AM
9	\$3.75 (hard cost)	4/8/2016 10:31 AM
10	Has not been quantified - currently working on that.	4/8/2016 10:19 AM
11	\$6.00	4/8/2016 9:32 AM
12	?	4/8/2016 9:20 AM
13	?	4/8/2016 9:16 AM
14	Not Sure	4/7/2016 2:18 PM

Q11 Would your credit union benefit from the ability to allow a potential member to prequalify for products (loans and deposits) in order to determine which services and terms you can offer them, prior to completing full applications?

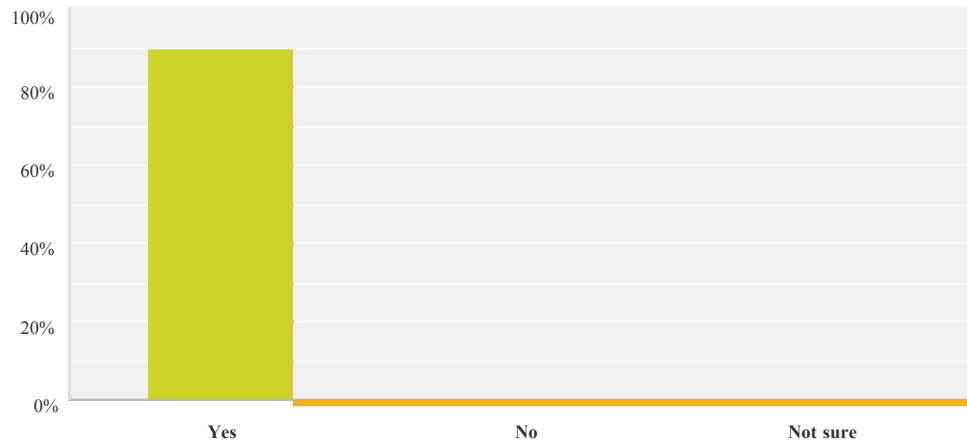
Answered: 24 Skipped: 0



Answer Choices	Responses	
Yes	79.17%	19
No	4.17%	1
Not sure	16.67%	4
Total		24

Q12 Would your credit union benefit from being able to profile a potential member who is shopping online in order to make personalized offers?

Answered: 24 Skipped: 0



Answer Choices	Responses	Count
Yes	91.67%	22
No	4.17%	1
Not sure	4.17%	1
Total		24

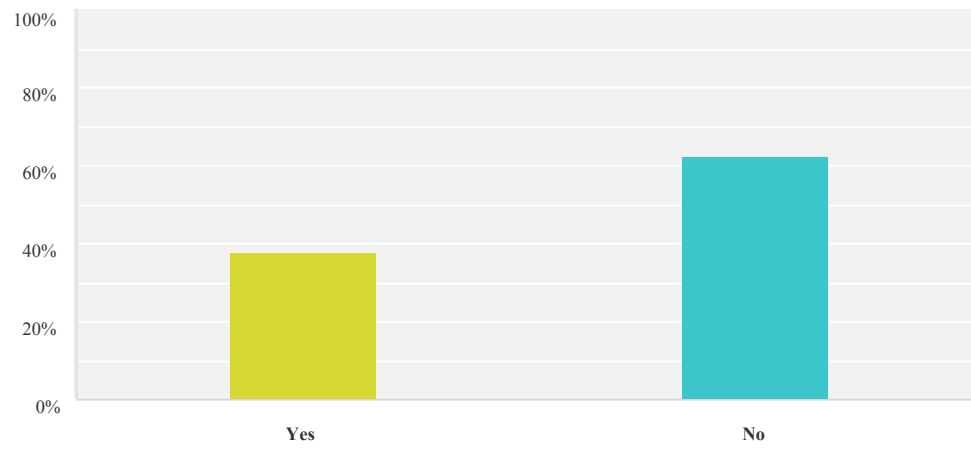
Q13 How do you think credit unions could do a better job of acquiring new members in online channels?

Answered: 14 Skipped: 10

#	Responses	Date
1	Be where the consumers are. Fast, Easy, Better	4/11/2016 3:35 PM
2	Retargeting	4/11/2016 1:46 AM
3	Focus less on branching and more on the online channel as a branch	4/8/2016 5:58 PM
4	We have to make it faster and easier.	4/8/2016 12:58 PM
5	Make the process easy and intuitive.	4/8/2016 12:54 PM
6	Strong Marketing	4/8/2016 12:09 PM
7	Simplify	4/8/2016 11:59 AM
8	simplify the process	4/8/2016 11:48 AM
9	Easy/short application process available on any device	4/8/2016 10:31 AM
10	Commit to a revised line of thinking with a retail mindset.	4/8/2016 10:19 AM
11	Making the process fast, easy and convenient	4/8/2016 10:11 AM
12	Simple digital, responsive process integrated with core	4/8/2016 9:52 AM
13	Truly differentiate from banks	4/8/2016 9:37 AM
14	Using data analytics to predict member behavior	4/8/2016 9:32 AM

Q14 Does your credit union have a strategy to actively focus on "digital natives?"

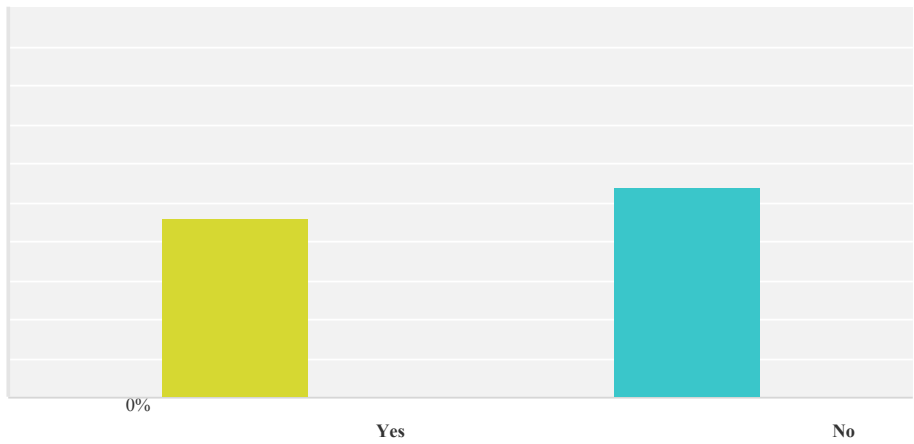
Answered: 24 Skipped: 0



Answer Choices	Responses
Yes	37.50% 9
No	62.50% 15
Total	24

Q15 Does your credit union have (or have you considered offering) a unique digital interface designed to appeal specifically to digital natives?

Answered: 24 Skipped: 0



Answer Choices	Responses
Yes	45.83%
No	54.17%
Total	