

## Making the Leap

Credit unions are jumping into mobile payments.

Members are eager to access credit union services from their smartphones and tablets. Hear from Community Credit Union of Florida, Bellco Federal Credit Union, plus industry experts in this special section.

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- Digital Channel Integration

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# Ready, Set, Payments!

***Normally cautious CUs are opting to leap into mobile payments as a way to attract members and deepen existing relationships.***

By Richard H. Gamble

Faced with big payments opportunities, especially in the hot mobile space, CU leaders find themselves in a look-or-leap dilemma. Is it riskier to leap into a venture like Apple Pay or CU Wallet without doing slow, careful research and market testing? Or is it riskier to look at developments and delay, while members move their payment activity away from the credit union into already enticing mobile apps? Normally cautious CUs are opting to leap for three reasons:





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1. They are concerned that members will choose other providers if they delay.
2. They see that the capital investment need not be large.
3. They are convinced that they will eventually offer multiple mobile payment options; they're not betting the farm by picking the right or wrong one now.

### Signing on to Apple Pay

Consider the case of \$495 million Community Credit Union of Florida ([www.ccuflorida.org](http://www.ccuflorida.org)), Rockledge, where marketing strategy dictates something close to leading-edge mobile banking, reports CUES member David R. Hill, VP/technology.

"We're in a high-tech area that is growing and attracting computer science types," Hill explains. "When we look at how our members access our services, mobile phones and tablets are the top devices."

"So, when Apple Pay ([www.apple.com/apple-pay](http://www.apple.com/apple-pay)) became available, we knew it was something we needed to offer or risk losing members."

The decision was made quickly. "We were hoping to get in on the first wave, so we needed to move right away," Hill recalls. So Community CU signed an agreement after an expedited investigation.

"We had two legal teams vet the agreement, and they assured us that the credit union's interests were protected if we changed our mind," he reports. "We'd been following the mobile wallet space for some time and knew we needed to be a player."

"The Apple announcement was

exciting," he says. "We liked what they were doing with tokenization [a security approach that protects member-identifying numbers from fraud]. It wasn't a hard decision to make."

Signing an Apple Pay agreement is something a credit union can do quickly. Supporting it is another matter, one that requires retooled processing. While Community CU has made the strategic decision to sign on to offer Apple Pay, it will not actually be able to do so until its processors are ready.

"We have two, one for credits and one for debits," Hill reports, "and neither can support Apple Pay at this point, but they're getting there."

### Easy Decision

At \$108 million Bellco Federal Credit Union ([www.bellcocu.org](http://www.bellcocu.org)), Wyomissing, Pa., the decision to offer Apple Pay also was made quickly. "We saw it as a must-have," says Christian Ojeda, chief operating officer. "We were particularly pleased that they adopted tokenization... It comes with strong security."

A member survey or paid consultant wouldn't have affected the decision, he says. "We know members will use it."

And for Bellco FCU, it wasn't a matter of choosing one mobile payments solution. "We want to be in all the digital wallets," declares CEO Tom Gosling, a CUES member.

Ojeda is not concerned that giving members the Apple app will dilute the credit union's own app.

"The apps are complementary, not competitors," he says. "Members use our app to make transfers between their

accounts, and in the future they'll be able to make deposits; they use Apple Pay to make payments."

### Try it First

A quick decision to sign an Apple Pay contract doesn't mean making a blind decision, of course.

Mobile payments have dominated conversations and webinars for several years, so credit union leaders have had time to think strategically if not act tactically. Now they can even sample the wares.

A quick and cheap way to explore innovative payments technology is to try it yourself as a consumer, notes CUES member Caroline Willard, EVP/markets and strategy at CO-OP Financial Services ([www.co-opfs.org](http://www.co-opfs.org)), Rancho Cucamonga, Calif.

"I work for a payments processor, so I try stuff out all the time," she reports. "I have a dozen wallet apps on my smartphone. You can do elementary research by trying out the various solutions and seeing how they work."

But also include some simple membership research, she urges. Survey your members by organizing user groups and listening to their reactions.

Expect your results to show variation by age. Recognize the momentum you will likely see among younger members, who are more likely to point to the future, but be sure not to introduce payment products just for the outliers, she cautions.

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# Digital Channel Integration

**CO-OP and Alkami Partner with Quorum FCU to deliver digital banking to members.**

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Consumer banking transactions are increasingly moving through digital channels, and financial institutions everywhere are embracing this trend. At the same time, digital banking technology is quickly advancing, with huge implications for credit unions and their members.

“Credit unions that expect to grow and protect their membership base have to be keenly focused on a digital banking strategy,” says Jon Bartek, director of national sales and relationship management at CUES Supplier member CO-OP Financial Services ([www.co-opfs.org](http://www.co-opfs.org)), Rancho Cucamonga, Calif. “More than ever, a consumer’s primary touchpoint with financial institutions takes place on a PC, smartphone or tablet.”

## Digital Channels Are Quorum FCU’s No. 1 Branch

Headquartered in Purchase, N.Y., Quorum Federal Credit Union ([www.quorumfcu.org](http://www.quorumfcu.org)) recently expanded its digital banking system to better serve an increasingly tech-savvy and widespread membership base. With more than 75,000 members and \$867 million in assets, Quorum FCU deployed Alkami Digital Banking with CO-OP Bill Pay, a powerful, fully integrated solution offered by CO-OP in partnership with Alkami Technology, Inc. ([www.alkamitech.com](http://www.alkamitech.com)), Plano, Texas.

According to George Cacchiani, Quorum FCU’s VP/information technology, “Our goal was to establish a digital banking platform that is in step with the growing, changing needs of our members. We wanted best-in-class features and

functionality, as well as the ability to build out the system with our own new features and enhancements in the future. It was also critical for us to work with partners that understand our industry.”

Alkami Digital Banking with CO-OP Bill Pay features an intuitive interface that is consistent from device to device and designed for touch on iOS and Android smartphones and tablets. Highly customizable, the interface serves as a branding tool for credit unions while also allowing individual members to personalize its look and feel.

The solution uses APIs (application programming interface) to deliver both a seamless user experience and a highly extendible development platform.

With CO-OP Bill Pay, users can receive, view, manage and pay e-bills, make peer-to-peer payments, expedite same-day payments, customize notifications and alerts, and create their own personalized payment rules and reports.

## Digital Banking Solution Reflects Quorum FCU’s Brand

Quorum FCU implemented the solution as part of a major rebranding initiative, so the project coincided with the launch of Quorum FCU’s new, redesigned consumer website.

“The simplicity of our new brand design modernizes the website, and its themes are now incorporated into everything a member touches, from printed brochures and sell sheets to our online and mobile banking platforms,” says Cacchiani. “From a technical standpoint, we streamlined our navigation to ensure seamless continuity between the website and our

digital banking offerings.”

To deliver an outstanding user experience from day one, Quorum FCU tested the system extensively, formally trained employees, and made a variety of informational materials available to help transition the Quorum FCU community to a new way of banking.

Once live, the system quickly became a valuable resource for members. Today, 41 percent of Quorum FCU members are active users of the system. Usage of the bill payment features has increased by 36 percent on average and the new budgeting tools are also gaining adoption.

“We are now able to offer a more robust, highly secure mobile banking experience that includes mobile bill-pay, mobile remote deposit capture and ATM locator features,” says Cacchiani.

“In fact, mobile deposit has become our fastest growing service. What sets the mobile component apart from other solutions is that it was developed from the ground up for smart devices. It is not an online website that has been wrapped for mobile. As a result, it has a native feel to it that appeals to digital consumers and especially to Millennials.”

Cacchiani notes that members also appreciate the more streamlined dashboard, the new, simpler online forms, and the reduced number of clicks it takes to perform routine transactions.

“Having a superior self-service platform is a key focus for us not only because many of our members bank virtually, but also because it is an industry best practice,” says Cacchiani. “And providing a consistent experience across all channels is critical in order to reduce call center inquiries on what should be user-friendly services.”

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**Be There. Be More.**







Continued from page 26.

“Look for your sweet spot,” she advises. “Use a bell curve.”

Mobile payments are revolutionary on the front end, not the back end, which still favors financial institution involvement.

While payments innovation may be member friendly, Willard notes, a small number of clearing infrastructures (credit card networks, ATM/debit card networks, the ACH network) remain that must be fed or replaced, and replacing them would be ambitious and expensive, she points out.

“You need connectedness to complete payments,” Willard notes, “and it took decades to build today’s rails. It would be quite a handicap if mobile payments can’t flow over existing rails.”

### Find the Right Partners

Not everyone thinks CUs are ready to enter the mobile payments world.

“Credit unions desperately need a disciplined way to approach payments innovation, but they rarely have it,” insists financial institution consultant Richard Crone, founder/CEO of Crone Consulting, LLC ([www.croneconsulting.com](http://www.croneconsulting.com)), San Carlos, Calif. “Look at a major

financial institution or even a comparably sized community bank org chart and you’re likely to find a payments innovation czar. For most CUs, that’s a gaping hole.”

Lacking expertise and resources, CUs can still play successfully if they team up with shrewdly chosen technology partners, Crone suggests. But here, too, most CUs aren’t enlisting the best vendors, he charges.

Most CUs see their technology partner as their core processor or maybe their online banking or mobile banking provider, and these are not the best innovators, he insists.

Crone says these firms are afflicted by the “innovator’s dilemma,” a mindset described by Harvard Business School Professor Clayton Christensen in his book of the same name.

Simply put, the tendency when legacy systems have already been built and capital expended is to force transactions through these almost costless networks to maximize profit, rather than invest in new offerings that can’t currently be used and will earn reduced returns in the short term.

Revenue enhancement is often the enemy of innovation, Crone explains. “It’s hard not to milk the cash cow. Revenue from ATM transactions, for example, is almost 100 percent profit.”

Credit unions wanting to invest in tomorrow’s solutions should find their tech partners in ventures that focus exclusively on mobile apps, Crone insists, and new startups that combine the advantages of a traditional credit union service organization with entrepreneurial leadership and ownership.

The future belongs to mobile apps, not online banking, he declares. “New research shows that 85 percent of all mobile traffic originates in an app, not in browser functionality,” he reports.

A winning credit union mobile banking platform needs to be a credit union-branded magnet for the latest and most popular apps. And that’s why a few perceptive credit union leaders are cancelling contracts with traditional tech providers to move immediately to app-savvy vendors such as Malauzai ([www.malauzai.com](http://www.malauzai.com)), Austin, Texas, and FIS mFoundry ([www.fismobile.com](http://www.fismobile.com)), Jacksonville, Fla., he points out.

“They’re not even waiting for their



contracts to expire, which is when CUs traditionally make a move,” he notes.

## Embrace Agile Development

The app world requires an agility that traditional legacy core processors can't match, Crone says. “Agile development means constant innovating, developing new releases by the month or week.

Most credit unions can't do that on their own. Today, the true innovators and even the fast followers need to be more agile than the traditional tech partners can support. They need to move to a Silicon Valley model, away from a traditional financial institutions model,” he argues.

The big payments opportunity for credit unions, according to Crone, is not signing up for Apple Pay or waiting to see how it fares, but thinking outside the box and aligning your credit union with partners like CU Wallet ([www.cuwallet.com](http://www.cuwallet.com)) and Paydiant ([www.paydiant.com](http://www.paydiant.com)) that think the same way.

Notably, PayPal ([www.paypal.com](http://www.paypal.com)) announced in early March that it plans to buy Paydiant, which drives CU Wallet. Leaders of CU Wallet, a CUSO with 87 credit union members, said the planned acquisition lent credibility to the idea that a credit union digital wallet could succeed in the marketplace (<http://tinyurl.com/cuwalletcomment>).

## Finding Innovation

A payment is a discrete transaction that can be successfully standardized and automated, which financial institutions have done with considerable success, Crone points out.

CU innovators need to start paying attention to what comes just before and after the payment, he says. “It's not easy for CU leaders to stop focusing on the payment itself and consider what happens before, during and after. But that's the big opportunity.”

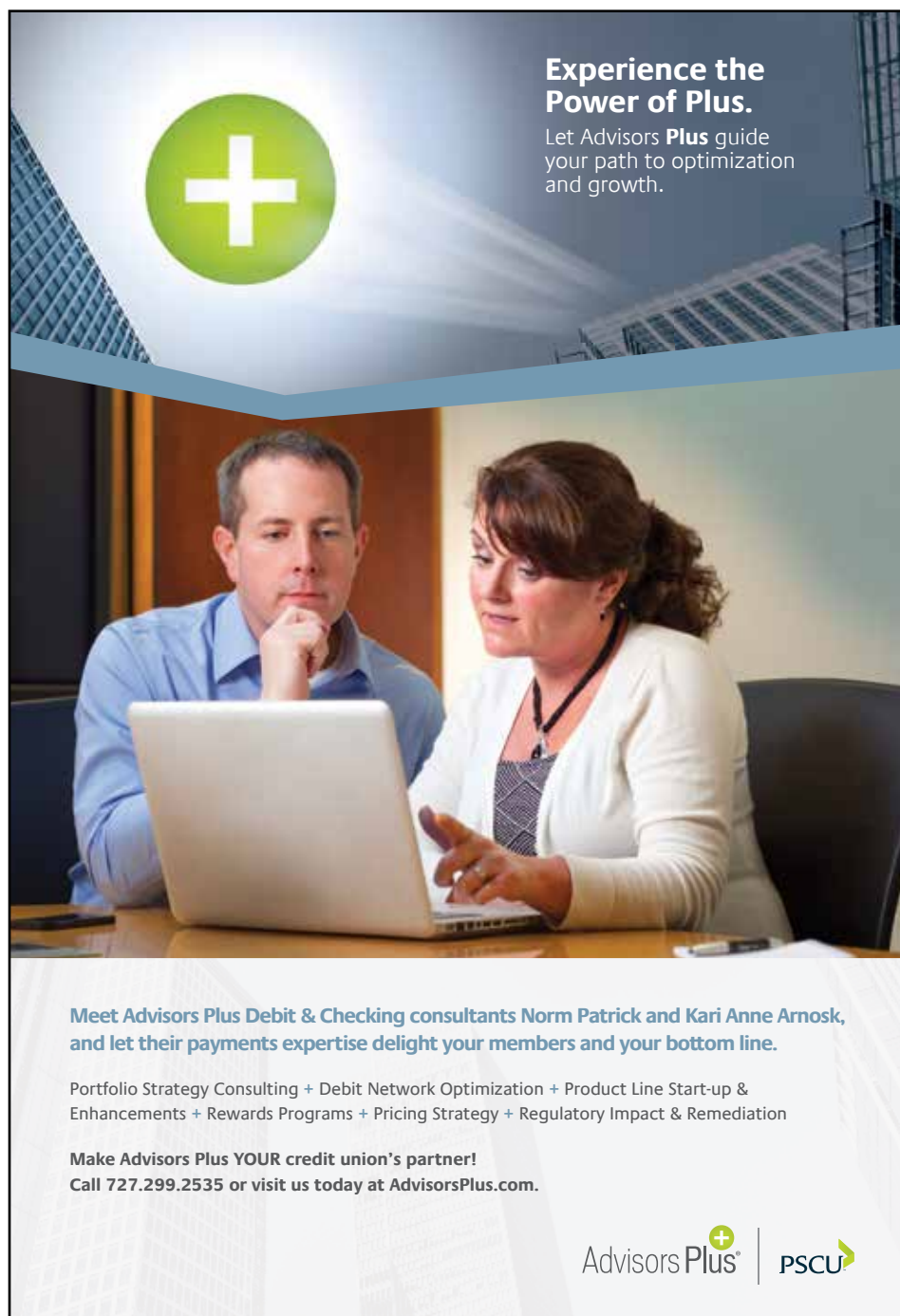
Moving into the “before” space opens opportunities for a trusted CU to use its own branded app and tight member relationships to offer well-placed and well-timed deals to members that can mean substantial savings for members and substantial new revenue for CUs, Crone enthuses.

A member who is remodeling a kitchen, for example, can opt in to a

shopping app and indicate what he or she intends to buy. The mobile device can detect when the member has entered Lowe's or Home Depot and can flash discounts or provide coupons on microwave ovens, dishwashers or stove tops. The merchant craves opportunities for such targeted marketing and will pay the credit union for the chance to market directly to its members who have opted in.

That revenue can amount to \$300 per year per active wallet for the credit union, Crone says. That's net new revenue and it's more than double what a credit union earns on an average checking account, mostly from overdraft charges. In all, that's a big opportunity, he concludes.

Credit unions *are* thinking outside the box. Working collectively through R&D labs, they are exploring highly



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## Three-Year Payments Outlook

To help credit union managers cope with the big opportunities and the big risks in the rapidly evolving payments space, CUES commissioned Decision Strategies International ([www.decisionstrat.com](http://www.decisionstrat.com)), Conshohocken, Pa., to identify the critical uncertainties on which success or failure will hinge by interviewing a variety of experts in the field. Based on its findings, DSI has sketched two scenarios, a highly optimistic alternative in which CUs enjoy the greatest opportunities and a much more challenging alternative in which CUs battle the greatest adversity.

While the report was being drafted at press time, Jarrad Roeder shared a preview of some of the findings.

Much will hinge on what happens in the mobile wallet space and how well credit unions individually and collectively can keep up with mobile technology innovations, says Roeder, lead consultant on the project.

Will an industry-sponsored and -branded venture like CU Wallet be able to run with mobile technology wizards like Apple and Google? Will consumers, faced with multiple mobile payment apps, choose a credit union offering as having the greatest value?

"A mobile wallet offers various ways to pay for things," Roeder points out, "and a lot is riding on how well credit unions can compete and influence members in ways that attract users, but also protect interchange income."

In one scenario, security problems plague mobile payments, driving consumers back to fraud-protected credit cards, which would be ideal for credit union revenue, he explains. In another scenario, mobile payments flourish around merchant schemes that use the ACH backbone and pretty much wipe out interchange, he says.

The future also will hinge on how well closed-loop payment systems like those offered by Starbucks and Macy's will grow. In a world of physical cards, it's been cumbersome and inconvenient to carry and present all that plastic, one for each major vendor the consumer patronizes. That hassle has favored Visa and MasterCard.

With digital wallets, that inconvenience could vanish. A smart wallet could even sense which vendor the consumer was approaching and automatically present the right card for payment in the right store, Roeder speculates.

"If the convenience is there, we could see a big swing to closed-loop systems with their strong rewards features, taking transactions away from Visa and MasterCard," he points out, "or, that fragmentation may not occur. Whatever happens could make a big difference to CU interchange income."

If payments shift away from Visa/MasterCard, credit unions would also lose valuable spend data and be less able to build successful rewards programs for their members, he adds.

Much also hinges on the success of the CurrentC ([www.currentc.com](http://www.currentc.com)) mobile payments solution. Sponsored by a

consortium of merchants, it is due for release later this year. If CurrentC is a hit with consumers and clears transactions through ACH, CU interchange (the interchange fees that merchants hate) could be decimated. But if security concerns sink CurrentC (and merchant databases have proved to be the weak link in most hacking incursions), CU interchange income could hold up pretty well, Roeder suggests.

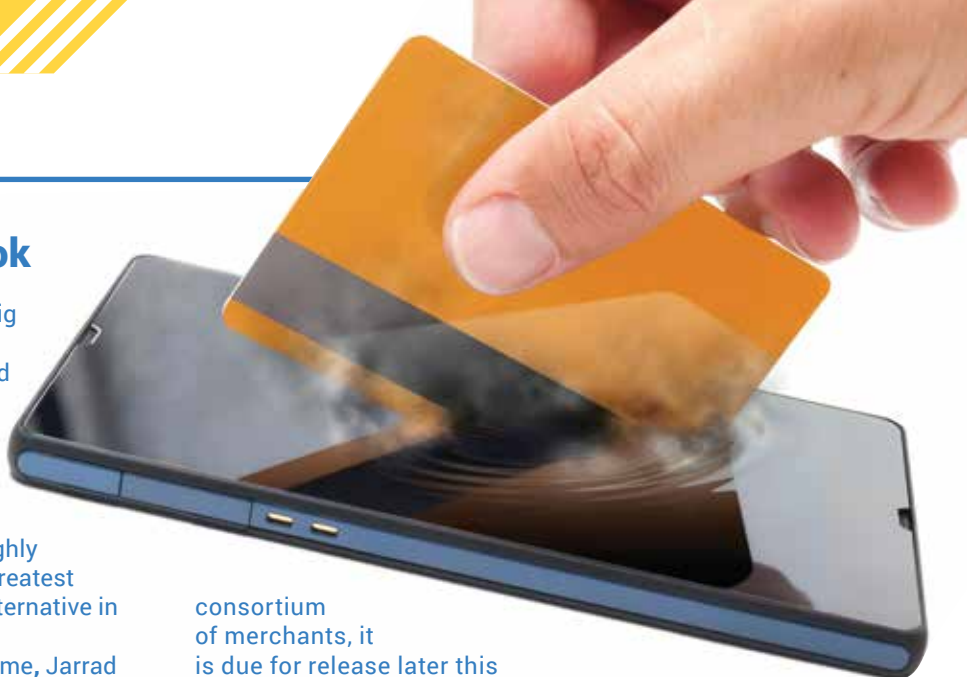
Much also will depend on how well CUs can collaborate to gain scale, he notes.

"It's getting harder and harder for individual CUs to compete against efficiencies of scale," he notes.

He offers an example: A colleague uses shared payments provider Venmo ([www.venmo.com](http://www.venmo.com)) through Bank of America to make person-to-person payments for free. Another colleague uses Venmo for the same purpose but, when adding funds from his credit union account, has to pay a fee.

"The more you have to pass along costs to members, the less attractive the credit union will be compared to large players," he says. Industry collaborations like CU Wallet could reach competitive scale, but it's not easy to make collaboration work, he points out.

Another hinge point will be whether the concept of a primary financial institution even survives the impact of mobile technology and the younger generations that love it. They may use many financial service providers, with the wallet being the point of integration, and the idea of loyalty to any one financial institution could become obsolete, Roeder suggests.



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innovative projects without busting budgets.

As an example, take Centsus, a project of the Filene Research Institute ([www.filene.org](http://www.filene.org)), Madison, Wis., which definitely links payments to what comes later, possibly even buyer's remorse.

Centsus tracks the purchases of credit union members that use their credit union's payment products, explains Andrew Downin, innovation director. A day or two after a transaction, an alert pops up on the members' mobile or desktop devices, prompting them to rate how happy they are with that purchase. Then it provides tips on how to spend for the greatest emotional value.

"If a member regularly goes out to lunch with co-workers and finds the experience tedious, the program might prompt him or her to consider packing a lunch and spending the money on something more satisfying," he explains.

"It could connect credit unions to the emerging field of behavioral economics, which ties financial decision-making to emotional satisfaction. That's certainly innovative."

It may be a little too futuristic for most credit unions. Three tested it a year ago, but none is currently using it.

"We're waiting for credit unions that want to take it to the next level,"

Downin says. With innovations, the challenge is getting the timing right as well as getting the concept right, he adds. "Our job is not so much scoring every time as it is providing fertile ground for thinking up and testing innovations," he concludes.

Richard H. Gamble *is a free-lance writer based in Colorado.*

## Resources

Get a preview of the new CUES payments scenarios report in the blue box at left. Get updates on the availability of the full report—designed to help CUs strategically plan for possible payments futures—by opting into the weekly *CUES Advantage* e-newsletter at [cues.org/enewsletter-subscribe](http://cues.org/enewsletter-subscribe). In addition to the for-purchase full report, a free executive summary will be available.

You may also wish to read CUES member Tom Gosling's 15 things to think about in Apple Pay and EMV planning at [cues.org/102014applepay](http://cues.org/102014applepay), "Payment Products Staffing Strategy" at [cues.org/0713payments](http://cues.org/0713payments), and "Apple Pay: How and When to Bite" at [cues.org/0215applepay](http://cues.org/0215applepay).

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