Summary

Community Development Credit Unions (CDCUs) fill a critical gap in banking services and access to credit for low-income and minority communities. With more than 9.6 million households living outside the financial mainstream and millions more vulnerable to predatory financial services, credit unions provide a viable and important alternative. Like middle and high-income consumers, convenience has become a critical driver in the choice of financial services and use among lower-income consumers. CDCUs must become fairly complex institutions quickly (and often on tighter margins), as they encounter high demand for transactional services and access to cash. To meet this consumer demand, more and more CDCUs must invest in new technologies and offer a range of electronic services such as online banking, mobile banking, remote deposit capture, online statements and notices, imaging ATMs and online account opening. While this investment can be a significant portion of a credit union's budget, these new services have the potential to leap-frog credit unions into expanding their reach into their communities.

Supporting evidence is found in a 2014 Federation report “CDFI Certification: The Building Blocks for Credit Union Growth” which identified CDCUs as credit union industry leaders and innovative member service providers. Traditionally known as “high touch” rather than “high tech”, CDFI credit unions today significantly outpace their peers in the use of high technology for member services. The high-transactional needs of low-income communities pushed CDFI credit unions to lead the way with innovative services such as online and mobile banking, bill payment services, online loan applications and 24/7 access to account information.

But this investment can take its toll. Many CDCUs operating on thin margins must figure out the right path forward with each new product and service. Legacy technology decisions such as the capacity, cost and service level of core data processing systems, can determine whether and how quickly a CDCU adopts new services. Simultaneously, evaluating third party vendor offerings, capacity, support services and connectivity with the core is a substantial task for CDCU leadership. Often, despite the best laid plans, these systems may not connect or synchronize seamlessly, resulting in patchwork operations and procedures which require manual intervention and reconciliation, draining staff time and institutional resources.

With this in mind, the National Federation of Community Development Credit Unions embarked upon a study to explore the technology needs of CDCUs, to identify technological solutions to better support operations, increase productivity and reduce technology costs. The following is the first in a series of technology briefs to synthesize lessons learned along the way. This first brief summarizes an initial survey to Federation members evaluating current core platforms in terms of credit union satisfaction, utilization rates, price, staff burden, data extraction possibilities and member complaints or concerns. The survey was fielded in the spring of 2014 with subsequent in-depth reviews of contracts, and terms. Fifty-three survey responses were received, accounting for approximately 29% of the membership, forming a representative sample of the Federation's diverse membership.
This brief is divided into four sections:

I. **About the Respondents**: Takes a brief look at the type of credit unions that responded to the survey.

II. **System Evaluation**: Measures satisfaction with existing systems and how likely the respondents are to switch systems.

III. **Future Direction**: Looks at where the credit union plans to expand the capabilities of their existing system.

IV. **Creating the Ideal System**: Identifies reasons why a credit union would switch core systems and seeks to determine the level of interest in this project, along with identifying the areas of the project credit unions are most interested in.

**I. About the Respondents**

The Federation received 53 responses from the core survey. While almost 80% of the respondents had less than $150 million in assets, the majority of responses came from members between $10 million - $150 million in assets, demonstrating a slightly larger size institution than the overall membership.

Survey respondents use a variety of core systems; 14 different companies for a total of 28 different systems were identified. That said, the greatest concentration of use (more than 30%) was in one of the many Fiserv systems. More than one half of respondents were using one of three companies: Fiserv, Jack Henry and Share One.

The length of time a respondent has been running on their current system ranged from just three months to 35 years. Almost half of respondents have been on their current system for more than a decade while 17% of respondents have been on their system for less than two years.

Respondents were asked to identify 3rd party vendors used in conjunction with their core services in the following areas: card processing (debit and credit), online banking and shared branching, lending and collections, investment, and asset liability management. The list identified well over 50 providers with the vast majority of respondents leaving these categories blank despite offering the services, indicating both a significant fragmentation of their operating systems and the challenge inherent in identifying and managing the diverse list of vendors.

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II. System Evaluation

The systems were evaluated based upon satisfaction rate, use or maximization of current system, cost, burden upon the staff in terms of manual reconciliation and intervention, and the ability and facility to extract or mine data for better understanding of the membership. While the sample size for each system was too small to definitively rate one system over another, certain patterns emerged. Three out of four respondents reported they were somewhat satisfied or satisfied with their current core system. For those who reported being dissatisfied with their systems, the median tenure of use was 10 years.

When asked if they were making the most of the capability and services of their core systems, half of survey respondents rated their utilization below average, indicating considerable room for improvement. This highlights a commonly expressed viewpoint among credit union professionals about whether the technology limitations result from the system itself or the lack of familiarity, training and support to better use the system.

An accurate comparison on the pricing of the core data processing systems presents a challenge as systems will vary widely with regard to the level of service offered in each package. Some vendors provide relatively lower-cost basic systems which require investment with each new layer of service needed, while others offer a more complete bundle or package of services. The Federation did conduct an analysis of the cost per member and the cost per assets of all technology expenditures to account for different levels of packages. Not surprisingly, smaller credit unions pay considerably more per member and per asset dollar than larger credit unions, indicating an important need for aggregation of purchasing power and economies of scale. For example, CDCUs in the $1 - $10 million asset category paid 49 basis points per asset dollar per year, CDCUs in the $50-$100 million assets category paid 15 basis points per asset dollar, and CDCUs above $150 million in assets paid 4-5 basis points per asset dollar. It does appear from the data that for smaller credit unions (<$50 million in assets), purchasing more bundled core systems may be a safer bet in the long run, from both a cost and operational perspective.

Similar results were seen with the extent to which current systems allowed credit union managers to understand their members. Less than one-half of respondents felt their system enabled them to understand or analyze how their members were using the credit union. At least one respondent pointed to the need to tie in a customer relationship management (CRM) tool in order to analyze their members’ use of services. Two of the vendors that did score high marks on customer data access and manipulation were smaller companies and were particularly well suited to the $50 million - $150 million market segment.

Finally, in exploring the experience of the member we found considerable complaints expressed by members and relayed by staff. These complaints fell into general categories around the inadequacies of the system, inconsistency in service with frequent service interruptions and the information provided to the members through statements and receipts, all of which contributed to the impression of the credit union being “unprofessional”. Additionally, respondents cited limitations or delays caused by their core systems in providing bill payment, mobile and online banking services.
III. Future Direction

Consistent with the overall credit union movement, CDCUs resoundingly affirmed their interest in electronic services moving forward. Mobile payments, remote deposit capture, and online member applications were the most commonly mentioned new services that credit unions were planning to roll-out over the coming years. The ability for a core system to allow a credit union to “innovate” was expressed strongly by respondents as well as in follow-up discussions with groups of credit union leaders. Without the flexibility to anticipate new service needs and adapt the system to accept new delivery channels and tools, credit unions feel they will not be able to keep pace with evolving member demand.

Third party integration, streamlined processes and improved data analytics were also a high priority for credit unions. Several respondents cited the need for better or easier integration to third party products which would facilitate more streamlined operations at the credit unions. There was a clear articulation of the importance of integrating or streamlining card services and loan processes, facilitating online account opening and/or loan decision engine, faster loan processing, streamlined document creation and better statement generation.

Respondents cited an intention of improving their understanding of members, seeking more confidence in the numbers generated by the system and an improved process for mining and generating reports. The theme of improved data extraction was raised by several respondents as was greater control over their data “without having to beg, pay, outsource, etc.” Others cited the importance of better analytics baked into the system itself allowing for advanced member segmentation.

The processes currently performed internally that respondents stated they would most like to “off-load” are accounting and account reconciliation, followed by product related functions like card ordering and online account opening. NCUA reporting, IT support, backup and disaster recovery and third party integration were also cited as opportunities for outsourcing.

IV. Creating the Ideal System

In order to identify the priorities in enhancing the credit union experience with core data processing systems, the survey asked respondents to identify key features they would seek in a new system and the level of importance of each. Not surprisingly, the majority of respondents cited innovation through electronic services such as online banking, e-statements and applications, mobile banking and mobile apps. Management and reporting features such as branch accounting, data mining and data center capabilities were also frequently cited. Accounting, workflow, and service support were noted, though with less frequency.

When asked what would prompt credit unions to consider switching to a new system, responses ranged from system reliability and responsiveness to changes in business needs, regulations and internal controls, and the ability to network with other credit unions. And in response to a question about incentives to switch systems, several respondents indicated greater importance of service enhancements over cost.

Respondents expressed enthusiasm over the formation of a CUSO or similar structure to develop or adapt a system to better meet the needs of community development credit unions. When asked what credit unions would find most compelling about the organization of a CUSO, respondents identified credit union ownership, better networking among credit unions, member relevance and the ability to stay ahead of the curve on regulations.

For More Information

Contact Blake Myers at bmyers@cdcu.coop or 212-809-1850 x221 if you are interested in participating in future technology surveys and would like to receive information on upcoming technology webinars. Future survey topics include Business Lending, Third Party Vendor Management and Analysis, and Back Office Collaboration.