Federation 2017 Annual Conference

Credit Unions United to Serve the Underserved
Best Consulting

• Kirk Kordeleski – Kirk@big-cu.com
• Senior Managing Partner
• Best Innovation Group
• http://bigfintechmedia.com/
• 516-528-5057
Credit Union Collaborations
Why Collaborate?
Industry Landscape

Credit Unions are evolving at break-neck speed.

The operating environment has changed and will continue to change for the foreseeable future.

The world that credit unions are now facing is a low income, highly competitive financial services market place requiring investments in new technologies and channels.

There is momentum towards shared services platforms starting to evolve in the industry where operations are consolidated in a manner that protects the local brand and control, yet lowers operating expenses, increases speed to market and creates improved skills.
Why Collaborate?

Serving members and competing for their business

The requirements to serve - products, services, channels, price

The competitive requirements - skill sets and speed to market

The differentiators – scale and affordably

The answer – collaboration
Why Collaborate?

Strategy Imperatives Drive Collaboration

If it doesn't the culture will kill it

Everyone talks about it – only the driven accomplish it

The rewards are incredible
What is the only material advantage banks have over credit unions?
Scale
Why Collaborate - Scalability

Scale is a strategy to deliver value to the members by significantly reducing expenses in the form of best-in-market rates, world-class service or more convenient access.

It can reduce expenses by **25% to 30%** in each affected operating department.
<table>
<thead>
<tr>
<th>Category</th>
<th>Industry</th>
<th>&gt;2B</th>
<th>&gt;10B</th>
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</thead>
<tbody>
<tr>
<td>Savings Growth</td>
<td>4.4%</td>
<td>6.3%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Asset Growth</td>
<td>5.6%</td>
<td>8.2%</td>
<td>11.1%</td>
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<tr>
<td>Loan Growth</td>
<td>10.4%</td>
<td>13.67%</td>
<td></td>
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<tr>
<td>Operating Expense</td>
<td>66.4%</td>
<td>56.1%</td>
<td>50.4%</td>
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</table>
Documented Results

Early Adopters
Misconceptions About Shared Services

Misconception #1

• Shared services is just another name for centralization.
• **Reality:** Customer needs drive policy, procedure and resource allocation.

Misconception #2

• Shared services is just another cost reduction scheme aimed at eliminating services and reducing service levels.
• **Reality:** A shared services organization is built around assessing customer needs, examining all work and costs incurred in providing services, comparing services with external benchmarks and providing services via Service Level Agreements.

Misconception #3

• Shared services is limited to volume-driven, transaction based processing activities, especially those in finance.
• **Reality:** Shared services can extend into environmental law, public affairs and intellectual property counsel. Shared services begins with no preconceived answer. The environment dictates a company-specific model.
Key Characteristics of Shared Services

Business Impacts are:

- Market disciplined - run it like a business – accountable to the customers.
- Processes designed to identify and deliver superior value with measurable results.
- Serves multiple business lines and organizational entities – services can be “bought by the drink”.
- Leverages economies of scale and obtains functional expertise at world-class levels.
- Infrastructure to compress commercialization of new products and services.
- Flexible Structures, Services and Products enables new partners and changing business unit structures.
- Provides access to information for competitive advantage.
- Flexibility to reorganize and assimilate new businesses.
- True cost of delivery is known and used for decision-making (no allocations).
Shared Services Models

Efficiency-Based Shared Services

Design / Competencies
• Operations-focused
• Process-based organization structure
• Wide spans of control
• Decisions at point of customer contact
• Supervisors are coaches

Why Not Shared?
• Business unit context-specific
• Directly responsive to business unit executives
• Excellence provides competitive advantage

Expertise-Based Shared Services

Design / Competencies
• Technical excellence-focused
• Team-based / little hierarchy
• Service context / level driven by customers

Business Unit-Based Services
Overall, a shared services approach represents a potential source of advantage to multi-business companies

**Increased Efficiency**
- Economies of scale
- Technology leverage
- Standardization / coordination
- Reengineering opportunities
- Greater spans of control

**Increased Effectiveness**
- Leverage specialized skills
- Free up management to focus on business issues
- Sharing of information and resources across businesses
- Customer service focus

**Lower Costs**
- Increase profits
- Increase ROI

**Achieve Strategies**
- Increase revenues
- Increase market share
How Savings Are Achieved

Labor Arbitrage

- Original Base Cost: 100
- Factor Cost Savings (Labor, facilities): 60-65
- Add'l Telecom and Mgmt Costs: 10-15
- Relocated Cost: 45-55

This includes offshore; onshore would be 15 to 25% depending on location.

SS / Outsource Advantage

- Reengineer: 20-22
- Consolidate, standardize skills: 8-13
- Economies of Scale: 3-5
- New Base Cost: 30-35

"The ability to share activities is a potent basis for corporate strategy because sharing enhances comprehensive advantage by lowering differentiation costs." — Michael Porter

**1980's**
- Global financial shared services enabled by improvements in technology, deregulation, competition, and globalization.

**1990's**
- Trend for shared services rapidly expands and extends to areas such as Human Resources, Marketing, and Information Technology.

**2000's**
- Offshore locations take shared services to next level of cost savings and global delivery. Companies successfully monetize shared services and spin-off as separate outsourcing businesses.

**Today**
- Trade Associations are merging or creating shared services which are then being evolved into outsourcing businesses. Mid-sized credit unions are actively pursuing IT and operations shared services.

Progressive credit unions embrace collaborative model and create jointly owned entities to process IT, deposit operations, lending, collections, call center, enjoying substantial scale savings.
Credit Union Example: Open Technology Solutions (“OTS”) & S3

• Together:
  • Nearly 750,000 members
  • More than $12b in assets
  • If ranked, 5th largest credit union then

• Reduced Expenses by Millions
• Strengthened Business & Operations
• Maintained Brand & Mission
• ROI in 2 years of operation
## Middle Office (Regional Shared Service Organizations)

### Operations

- Financial Control
- Compliance
- Controllership
- Human Resources
- Risk Management
- Accounting / Regulatory Reporting
- Project Accounting
- MIS
- Internal Audit
- Tax
- Electronic Banking Support

- Global Custody
- Local Custody
- Corporate Actions
- Funds Administration
- Stock Lending
- Stock Borrowing
- Investigations / Customer Svc
- Accounting / Reporting
- Tax Reclaim
- Vault

- Funds Transfer
- Lockbox Processing
- Investigations / Customer Svc
- Accounting / Reporting
- Settlement
- Controlled Disbursements

### Securities Processing

- Cash Management

- Trade Finance

- Letters of Credit (Insurance and non-Insurance)

- Import / Export Bills

- Investigations / Customer Service
Example: Citi Group Global Shared Services

<table>
<thead>
<tr>
<th>Infrastructure / Back Office (Global Shared Service Organizations)</th>
<th>Finance</th>
</tr>
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<tbody>
<tr>
<td>A/P</td>
<td>A/R</td>
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<tr>
<td>Fixed Assets</td>
<td>T&amp;E</td>
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<tr>
<td>Reconciliations</td>
<td>Proofs and Controls</td>
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<tr>
<td>Credit</td>
<td>Budgeting</td>
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<td>Intercompany</td>
<td>Message Routing</td>
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<td>Record Keeping</td>
<td>Data Center</td>
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<td>Application Development</td>
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<td>Data Maintenance</td>
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<td>Help Desk</td>
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<td>Vendor Maintenance</td>
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<td>Telecommunications</td>
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<tr>
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<td>Data Center</td>
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<table>
<thead>
<tr>
<th>Account Opening</th>
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<tbody>
<tr>
<td>New Accounts</td>
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<tr>
<td>Maintenance</td>
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<td>Documentation</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Real Estate and Facilities</th>
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<table>
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<th>Credit Card Processing</th>
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<table>
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<tr>
<th>Mortgage Processing</th>
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</table>
Theory into Practice
We have developed a new, quick assessment tool:

- Consulting that identifies common vision and values between perspective partners

An initial dive into the data to broadly understand the financial case and potential savings

A two day session to actively create a business plan that brings the key concepts and the key people into alignment

- Can be competed in 30 days
Process

2 – 3 day design event

- Preparatory Data Gathering at each CU
- Agree Operating Model
- Key Design Aspects
- Implementation Approach
- Document Playbook*

* Start with “best practice” template
Market Assessment and Plan

Define scope

Market research

Focus groups with key CUs

Analysis of options

Business case and path forward
Overall Framework

Apply the following framework to functions & processes to be considered for sharing...

Degree to which Service Level Requirements are common

- Common
- Unique

Degree to which function is critical to success of business strategies

- Highly critical
- Not critical

May be shared or maintained

- Retained

May be shared or retained

- Shared

Develop value proposition and evaluation threshold
## Start…Identify Appropriate Function & Processes

### Applying the following kind of considerations

<table>
<thead>
<tr>
<th>Process Characteristics</th>
<th>Delivery Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repetitive Process</td>
<td>Processes specified &amp; documented</td>
</tr>
<tr>
<td>FTE Intensive</td>
<td>Successful outcomes defined &amp; measurable</td>
</tr>
<tr>
<td>Processed Remotely</td>
<td>Service levels manageable</td>
</tr>
<tr>
<td>“Clean cut” from other process &amp; systems</td>
<td></td>
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<tr>
<td>Process knowledge “trainable”</td>
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</tbody>
</table>

### Demographical
- No Regulatory / legal barriers
- Geographically neutral

### Risks
- Loss of direct control
- Impact of service failure
- Feasible back-up
- Political risk

### Benefits
- Measurable cost & quality advantages
- Avoid capital expenditure
- Variable cost model
- Free up critical management time
- Catalyst for change

### Weighed against potential benefits
- No Regulatory / legal barriers
- Geographically neutral
Develop an Evaluation Threshold

**Threshold**
- Annual Savings ($ and/or basis points)
- Payback (Years / IRR / NPV)
- Cost Avoidance ($)
- Other Strategic considerations / constraints

**Evaluation Factors**
- Services and service levels
- Cost chargeback / pricing
- Upfront investment
- Governance
- Leadership & management process
- Cultural Fit
Create Consensus

This involves engaging the organizations to obtain consensus on potential benefits

- Be Clear About the Initiative
- Identify Stakeholders
- Identify Stakeholder Impact
- Determine Stakeholder Needs
- Create a Plan for Each Stakeholder
- Manage and Update the Plan

Stakeholder Assessment

Stakeholder Management
Founding Principles
# Why Collaborate – Operational

<table>
<thead>
<tr>
<th>Strategy and founding principles</th>
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<tbody>
<tr>
<td>Example of a Technology Business Model</td>
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<tr>
<td>Example of an Operational Business Model</td>
</tr>
<tr>
<td>Successes</td>
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<tr>
<td>Challenges</td>
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</tbody>
</table>
## Founding Principles

<table>
<thead>
<tr>
<th>Operational efficiency and scale</th>
<th>Most effective way to create growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Return value to membership</td>
<td>• Thorough collaboration and consolidation without merging</td>
</tr>
<tr>
<td>• Leverage for growth</td>
<td></td>
</tr>
<tr>
<td>• Substantially lower expenses</td>
<td></td>
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</tbody>
</table>
Founding Principles - Collaborations vs Mergers

Mergers
• One CU wins, the other loses its identity
• Management and culture: one wins, the other loses
• Same with the Boards and brand
• Key decisions are easier

Collaborations
• Both CUs thrive
• Control is maintained at the individual CUs
Founding Principles

Real value in scale / collaboration

- Occurs through combination of large departments, technology operations or cost centers
- Several small and medium size CUs getting together
- Leverage for growth

First priority is collaborate vs. doing it on our own

Utilize one core computer system or partner with departments that do not require common platforms
Several Collaboration Projects Underway

- Three credit unions working on technology, call center and other operational collaborations

  Leagues are beginning to address the CUNA Mutual changes with collaborative solutions – LSCU and NYCUA, CA, MD, NJ. Several discussions under way

  - Digital Projects – newest frontier, market place lending
  - Cloud Based Projects
  - Several Smaller CU Technology projects under way, compliance, accounting, etc.
  - Mortgage Operations
  - Shared Branches
CUSO Examples
Open Technology Solutions (OTS)

Partnership between three large credit unions

- Bethpage FCU
- Bellco
- State Employees of MD
Size and Scale

Nearly 750,000 members

More than $12 billion in assets

- Bethpage: $5.75B
- Bellco: $3.2B
- State Employees: $3.2B

Would rank together as fifth largest credit union
Founding Principles

Computer systems consolidation value was to enhance performance and save money

The intention is not to start a service bureau business
# Partner Selection

## Partners select each other
- Like-minded; philosophically-aligned
- Trust-based, willing to partner
- Picking the right partner is more important than the project

## What’s the “right” number of OTS credit union partners?
- Balance between leverage and dilution
- Strategy: small number of like-minded partners
- Target: 4-6 partners
OTS Business Model

• Increased technical and management skill sets

Increased service and availability

New projects / products have constantly come to market quicker than we could do it individually
Tech Services Provided by OTS

Services
Applications
Infrastructure
## Key Components of OTS Performance

<table>
<thead>
<tr>
<th>Increase Services</th>
<th>Speed to Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Uptimes</td>
<td>• Enhancements</td>
</tr>
<tr>
<td>• 24x7</td>
<td>• New product</td>
</tr>
<tr>
<td>• Online banking</td>
<td></td>
</tr>
<tr>
<td>• eCommerce</td>
<td></td>
</tr>
<tr>
<td>• Mobile banking</td>
<td></td>
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<tr>
<td>• Digital</td>
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</table>
Data Processing Collaboration Initiatives

- Custom online banking
- Multi-factor authentication
- Online loan origination
- In-branch new account opening process
- Branch capture
- Velocity consumer lending platform
- Akcelerant collections platform
- BSA platform
- Custom warehouse
- Archival database information security
- Technology purchasing
- Vendor management
- Custom reports
- Mobile banking
- Disaster Recovery platform
- eSignature solution
- Aggregated pricing for debit / credit card services
- Bill payment
- Member statements
- Shared fraud management service
Operational Efficiency and Scale

Reduced expenses by millions of dollars per partner

Used a proven and effective way to strengthen the business and operations without diminishing the brand or mission

Returned the investment in the first two years of operations with three partners
Successes

OTS operations from a service and cost perspective have exceeded original expectations

Partners have expanded the scope of operations dramatically since creation

Partners default to collaborative solutions across all business units

New projects/products have consistently come to market in less time than we could do it individually

The foundation for greater business collaboration is in place
Key Points

• Shared Service Technology Solutions – while new to credit unions – has been operationalized in banks (through mergers and holding companies) for decades.

It is a proven model in banks, and now in CUs

We can do this better than anyone else because collaboration is a core strength of CUs and is in our DNA.
SHARED SERVICES – S3
Operational CUSO for Collections, Branch Ops, Lending and Call Center
Shared Services

The OTS partners created a second CUSO to provide non-technology shared services to their credit unions.

The CUSO consolidated certain back room business functions in a shared environment.

Reduced expenses by millions of dollars per partner, breaking even on the investment in the first 24 months.

Participation in shared services CUSO requires tight alignment of systems and business processes.

Significant up-front costs to set up operations, buy the technology, hire the skills and the consultants.

A big commitment of time and energy is required to work with the boards and teams.
OTS – S3 Governance Principles

• Each CU needs to be committed to common strategies.

The CEO and the Executive Staff must understand and believe in collaboration being key to their CU strategies.

CUs must have leadership that will value the collaboration partners equal to / in the same way they view their CU and staff.

Boards must understand the value and support the initiatives.
**S3 Business Model**

**Sharing Of Investments And Expenses**
- Equal contributions to cover capitalized start-up costs
- Start-up expenses split based on anticipated ROI per CU
- Administrative costs split by three, volume sensitive costs will be allocated by activity

**Equal Share Of Governance**
- Governing Board decisions
- Board of Managers decisions
- Business priorities
S3 Business Model

Net return in the millions, each partner’s savings were different based on volumes

Equal to or better service than the best and / or class-leading service at a much lower cost.

Investment returned in 24 months after S3 is fully operational
S3 Cost Savings

- Each CU removed approximately 125 positions from their operations

One-third of those positions were scheduled to be eliminated at S3 using better processes and technology

The operations were located in lower-cost areas (Baltimore, MD and Denver, CO)
Investment by the Partners

Significant up-front costs to set up operations, buy the technology, hire the skills and the consultants

Significant amount of time and energy required to work with the boards and teams to move the project forward
Project Management

- A major project requiring all levels of participation
- A cultural change
- Hiring of consultants to bring expertise and help manage the project
- Hiring of skilled staff to run a large, 200-plus person operation
- Significant management time to handle the decisions and the politics
S3 Business Model

Areas to be consolidated (co-sourced) into S3

- Deposit operations
- Collections*
- Mortgage lending origination and servicing
- Consumer lending origination and servicing
- Card operations
- Contact center

Systems and processes developed to make serving three CUs as efficient and seamless as possible

*Some functions may be outsourced.
Successes

- Five departments converted to S3 – all functioning at goals
- Cultural evolution has worked well
- Standardization has benefited each partner
- Mortgage origination has been the biggest challenge
Unavoidable Challenges

• Getting staff (executives included) to look past the belief that “we do it best”

Ongoing management of another sizeable enterprise

Standardization of systems and processes (harder than we thought)

We are not a holding company; there is no central authority to make decisions
Unavoidable Challenges
(Reality Diverges from Theory)

Culture clashes will happen – and cause damage

Vendors don’t always understand the model and will try to force-fit CUSO into their model(s)

Business strategies don’t always align

Pure backroom operations worked far better than member facing depts. because of the individual philosophies of each CU.
The Model Works...

Size and volume create scale
- The opportunities for a combined organization are far greater than for an individual credit union

Alignment in technology and process allow for leverage of scale to achieve greater savings
- Buying power
- Operational efficiencies
Summing it Up

What this means for The Federation
The CUSO Model and The Federation

The Federation is a dynamic, growth-oriented association of credit unions. The Federation promotes financial inclusion by organizing, supporting, and investing CDCUs.

We achieve our mission through:

• Initiatives
• Expertise
• Investing
• Advocacy
Federation

Common platform – CU Impact

• Automated Lending
• Mobile Banking
• Data Analysis
• System Development
Best Innovation Group
# Best Innovation Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>Kirk Kordeleski</td>
<td>Executive Expert</td>
</tr>
<tr>
<td>John Best</td>
<td>Technology Guru, Digital Transformations</td>
</tr>
<tr>
<td>Vim Anand</td>
<td>Financial Expert</td>
</tr>
<tr>
<td>Anthony Bender</td>
<td>Network Ace, Infrastructure and Capabilities</td>
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<tr>
<td>Glen Sarvady</td>
<td>Payments Authority</td>
</tr>
<tr>
<td>Pete Sedgwick</td>
<td>Security Sage</td>
</tr>
<tr>
<td>Carrie Acosta</td>
<td>Symitar Specialist, IT Insights</td>
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<tr>
<td>Trasie Sikka</td>
<td>Project Manager</td>
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About BIG

Industry “thought leader”

Strategic consulting, technology innovation and development organization

Focus on credit unions, community banks and small financial institutions

Industry leader in credit union growth and technological innovation
BIG Products

Setit Credit

BIG
BEST INNOVATION
GROUP

MESSAGE
fountain

FIVE

2017 ANNUAL CONFERENCE
Our Services

Credit Union Transformation
- Digital Transformation
- Data Analytics
- Shared Services
- Mergers
- Charters

Management Consulting
- Strategic Planning and Alignment
- Cultural Strategies
- Organizational Structuring

Business Recovery Services
- Business Re-engineering
- Focused Improvements
- Program Management
- Governance Alignment

Professional Services
- Cloud services
- NCUA Examinations
- Core services
Best Consulting

• Kirk Kordeleski – Kirk@big-cu.com
• Senior Managing Partner
• Best Innovation Group
• http://bigfintechmedia.com/
• 516-528-5057