US Credit Unions: From Data to Decision

Part I

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Credit Unions were created with the idea of serving their members rather than maximizing profits. The aim of most Credit Unions is to be the primary financial institution of their members. *"A lot of people know about credit unions, but their advantages aren't always top of mind,"* says Patty Briotta, spokeswoman for the National Association of Federal Credit Unions in Washington, D.C. *"Oftentimes, people don't look into credit unions until they're shopping for a particular product like a mortgage or a car loan, or when they move and need a new financial institution."* [1]

According to Credit Union National Association, U.S. credit union memberships grew 0.4% during May 2016 to 107.2 million. [2] Despite this steady increase in membership, it is predicted that recent increase in gas prices and increased spending of members will slow the savings growth rate trend for the coming year.

Credit Unions pride themselves as being the financial services provider that are most in tune with their members' needs. Due to the nature of Credit Unions' business model (product-silo marketing), it becomes difficult for Credit Unions to spend a lot of their budget to enrich their member experience through generic marketing and service campaigns.

Credit Unions have huge transactional database of their members. The main question one can ask is, how can we utilize this huge data source? Furthermore, why do we need to understand this data?

Despite access to so much member data – and the relatively widespread use of various member analytics tools – less than 1 in 10 companies feel that they have an excellent understanding of the overall member experience. [3]

Know your member.

When it comes to an individual member, there is low visibility at the corporate level about a member's needs. It becomes very difficult for the upper management to decide the right services to provide each individual member. This creates a gap between the member's potential requirements and the actual services provided to them.

Personal touch and interaction is a key differentiator for Credit Unions when compared to banks. Having insights of their members will help Credit Unions better manage members' experiences and help
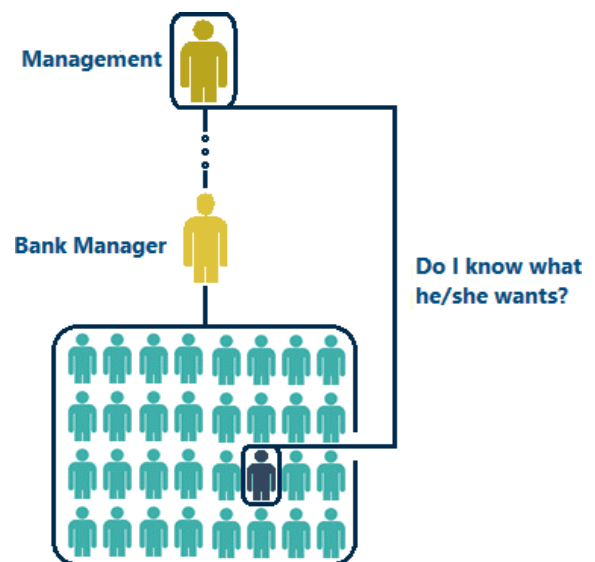
find ways to cross-sell and develop relationship-based pricing for loyal members, or even predict membership attrition.

Presently, Credit Unions are unable to quantify the loyalty of incoming members. This proves to be particularly disastrous, when a new member is only interested in taking advantage of a Credit Union's loan portfolio and the Credit Union spends a portion of its marketing budget for targeting services that this member will never use.

Targeted marketing and engagement campaigns can result in both reduction of marketing expense and an increase in response. For example, instead of targeting 100,000 members with a response rate of under 1% a credit union can target fewer members and achieve a similar or even higher response rate.

Know your risks.

According to Credit Union National Association, the 60+ day delinquency for most Credit Unions remained at 0.7% in May 2016.[4] Credit Unions are unable to predict beforehand a member's risk of defaulting or becoming delinquent on one or more loans. The need of loan delinquency prediction is of highest priority, as Credit Unions will then be able to take necessary actions prior to occurrence of such events.

Furthermore, most Credit Unions have started providing wealth management services to their members. This helps Credit Unions to increase their non-interest income. However, it requires further risk mitigation. For example, there is a need for

detailed insights regarding the potential risk of redemption of members from a particular fund investment.

Know your technology.

Emergence of digital technology has shifted the focus of most Credit Unions to provide member facing technologies like digital wallet, extensive mobile and online banking platforms, and peer to peer (P2P) payments to improve their member experience.

While most Credit Unions understand the value of and have rapidly integrated member facing technologies, but few Unions can form comprehensive strategies around the data which is collected.

Increasing share of wallet (i.e., deepening of member relationships) is the most important marketing priority in 2016. [5] This would only be possible if credit unions have a 360° view of their members. It is estimated that the use of social media channels by banks and credit unions have climbed in 2016, with close to 9 in 10 institutions using Facebook, up from less than half only 4 years ago. [6]

There is a need for Credit Unions that engage in member-focused marketing to find similarities between a member who displays certain behaviors and attributes with other members by analyzing their demographic, transaction, online and social media behaviors. This would greatly increase the effectiveness of marketing campaigns.

An improved understanding of members' preferences and behaviors while they visit a Credit Union's website can help in

optimizing content based marketing on the website and in creating a personalized experience for every member.

While incorporation of Fintech solutions will increase member engagement and enhance user experience, however, a willingness to create business strategies dovetailed by analytics on the additional data generated will give Credit Unions an edge over their competitors.

Possible Areas of Data Analytics

In this series of thought papers, we will be discussing in detail the scope of using predictive analytics to resolve the mentioned problems faced by most US Credit Unions.

This paper showcases the potential areas in which Credit Unions need to focus on to be at par with their competitors, and forms a

firm foundation for the future series of thought papers to help steer Credit Unions in the right direction.

In our next paper, we will be discussing the need and best practices of segmenting members for an effective member management and engagement strategy.

"With emergence of new technologies and rapidly changing business models it is imperative to create cost effective solutions for US Credit Unions through predictive data analytics and Big Data technology converting data into actionable insights."

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