Digging Through the Data

LUCY HARR

Analytics creates opportunities to develop high-value members.

In credit unions' early days, each production line in a factory might have its own credit union office, a volunteer treasurer often did the accounting by hand, and a credit committee assessed risk, relying on personal knowledge of the borrower when making loan decisions.

"Recommended for you" or "you might also like" came from familiarity with the member's character, not an algorithm.

These credit unions were relevant to their members, who might not have had other options. Even after credit unions grew larger, expanded their fields of membership, and used credit reports to approve loans, the maxim "you're a name, not a number" prevailed.

Fast forward to the digital age.

While staff still greets many members by name when they walk into the lobby, a growing contingent interacts with credit unions primarily on their handheld devices and rarely visits a branch. Members joining a credit union via an indirect loan might have little other contact, virtually abandoning their minimum-balance accounts or withdrawing their memberships once they pay off their loans.

"Every credit union is unique, so it wouldn't be right to make a blanket statement that the impact is the same for all of them," says John Myers, president/principal of the credit union consulting firm C. Myers. "However, if we can make an assumption there's a pool of members with only a $25 share account and who have been inactive for a long time—in other words, no loans, interest-bearing deposits, or active debit cards—then the impact is not a good one."

It costs money to maintain each account, including charges from the core processor to the cost of paper or electronic statements. "It's not too difficult to figure out that monthly cost," Myers says.

Say that a $500 million asset credit union with 50,000 members has 4,000 members with $25 share accounts and inactive checking accounts—not an unreasonable assumption, Myers says. "Now imag-

Focus

- **Data** allows you to understand your members and their needs.
- **Data** analytics information can help you turn disengaged members into active ones.
- **Board focus:** A data analytics program can identify opportunities to better serve members.

‘If you provide an opportunity to save money, they will call back.’

Mike Long

ine the cost of maintaining those accounts is $1 per month," he says. "Over the course of a year, the hard cost could be nearly $50,000—or one basis point. To many credit unions, a full basis point hit to the bottom line is not desirable."

The potential for fraud also exists. A dormant account, for instance, could lure a dishonest employee to take over the account and fund fictitious loans, causing both financial and reputational consequences.

Boost members' engagement

Increasing the percentage of active members can be a great strategic move, Myers notes. For starters, credit unions need data about how members use their products and services. They can turn this data into valuable business intelligence.

Big, tech-savvy companies such as Google, Amazon, and Facebook have "treasure troves" of consumer data, which they in turn sell to companies.

"Credit unions have a different treasure trove of data on their members and can use it to their advantage: Which members have active loans in good standing? Which members have interest-bearing accounts? Which members are using electronic delivery channels exclusively, thus driving down the cost per transaction?" Myers says.

You also need to create an intelligible definition of "contributing member" to motivate behavioral changes among staff, Myers says.

Credit unions face three common stumbling blocks in this regard, according to Steven Simpson, vice president of strategy and innovation at $8.6 billion asset Suncoast Credit Union in Tampa, Fla.:

1. Culture. No one is asking the questions or measuring the member segments that represent opportunities for action, says Simpson. "There's a lack of a data-driven culture at most credit unions."

2. Silos. Credit unions need a data warehouse to aggregate, extract, identify, and measure data.

3. Lack of resources. Credit unions need either internal resources or a consultant to guide them over these hurdles. This allows them to pause from the day-to-day tactical issues and focus on strategic issues.

"For any business that wants to have a good shot at remaining relevant and financially sound long-term, they need to become masters of using their own data," says Myers.

UW Credit Union in Madison, Wis., did just that. As part of an "Extreme Lending" initiative, the $2.5 billion asset credit union grew its indirect lending business by devoting staff resources to developing dealer relationships. Now, 54% of its $333 million vehicle loan portfolio is in indirect loans.

Recognizing that these members could benefit from additional loans and services from the credit union, an employee built a spreadsheet to identify opportunities to grow business. That spreadsheet has evolved into proprietary software used by outbound call center staff to pick up business that has been left on the table, says Mike Long, executive vice president/chief credit officer.

The effort starts with one call and a follow-up email and, if there's no response, another call and email a week later, and then another round in six months. This led

GET STARTED WITH DATA ANALYTICS: 5 STEPS

Follow these steps to launch your analytics program:

1. Identify a narrow question. For example, "Can we identify and present auto loan offers to members who are about to pay off an existing loan?"

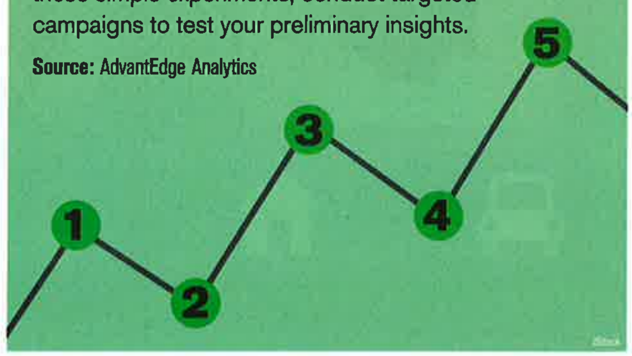
2. Capture and use only a subset of data. Gather only the data that is most relevant to address the question at hand.

3. Take a simple approach. The term "analytics" can be intimidating. Don't think you need sophisticated modeling formulas, etc.

4. Don't rush the results. Give your team time and freedom to explore and research.

5. Test and learn. Based on what you learn from these simple experiments, conduct targeted campaigns to test your preliminary insights.

Source: AdvantEdge Analytics



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to $50 million in additional loans being made in 2017.

"We found that time of day or weekend vs. evening made no difference," says Long, referring to the follow-up efforts. "What makes the difference is saving members money. If you provide an opportunity to save money, they will call back."

In the future, UW Credit Union plans to involve branch staff in following up on leads, leveraging the proximity of the branch to develop richer relationships.

Both Long and Myers advise credit unions to begin by using the tools they have and setting small goals.

"Start with achievable milestones that provide a sense of success," Myers says. "Focus on bringing about behavioral change in both the staff and membership and on making sure your delivery channels are aligned with members' expectations."

Mine your data

Once you've collected data, Simpson advises mining the data to find the information that hides within. You might be relying on flawed intuition, and you might not be asking the right questions.

"Once you see the minorities of members producing the extreme majority of balances, debit card transactions, and fees, you'll naturally want to know more about them," Simpson says. "They will become a critical segment. You'll see how they differ from the majority of members. Then you'll want to know how to get—and keep—more like them.

"Look at the process you use to engage members," he continues. "We want members to use us as their primary financial institution, so do they have a checking account? Typically, 30% to 40% of members do not. So that's step one. Then when they have a checking account, do they use it? We don't achieve success by getting a lot of unused checking accounts."

Simpson suggests offering an incentive for members to choose your checking account, and walking them through the process. "Provide an instant-issue debit card and then make sure it works by having an employee walk over with the member to use the ATM," he says. Also, provide incentives for staff who open accounts that are active, Simpson advises.

Focus on execution

Time matters when onboarding new members, says Chris Nicholas, chief analytics officer for CUNA Mutual Group's AdvantEdge Analytics, a CUNA Strategic Services alliance provider. "This is where you start to collect the data and understand behaviors."

But it's not all about the data.

"It's easy to become enamored with algorithms, analytics, and artificial intelligence," Nicholas says. "But the ability to execute is key. Execution matters most. Test and learn. And measure."

Measurement is critical to knowing if you should stop trying to convert an inactive member into one who is engaged. "Identifying a quick 'no' or a segment you can't influence or help is as valuable as finding the segments you can," Simpson says.

For credit unions that close dormant accounts, test tactics to restore them by measuring your results. Ask whether spending the money and effort to revive 10 out of 1,000 accounts constitutes success.

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Steven Simpson

What if your credit union doesn't have the in-house resources to take a deep dive into data? AdvantEdge Analytics and OnApproach offer potential solutions.

Through a secure, encrypted process of integration and translation, OnApproach leverages existing data—from the credit union's core processor and from data pools—and employs a data scientist to provide solutions.

"We're the Rosetta Stone of our credit unions' data," says Austin Wentzlaff, OnApproach vice president of business development.

As credit unions grow, it becomes harder to provide a personal member experience. But ironically, data analysis might help credit unions to better know their members.

"What's the cost of not doing it?" Wentzlaff asks. "Becoming irrelevant."

RESOURCES

- AdvantEdge Analytics, a CUNA Strategic Services alliance provider: *advantageanalytics.com*
- C. Myers: *cmyers.com*
- CUNA Technology Council: *cunacouncils.org*
- OnApproach: *onapproach.com*