

# In the Year 2022

## Are credit unions prepared for a mobile future?

By Jay Morris

Put aside for a moment your worries about shrinking margins, government regulation and an uncertain economy. “Suspend your disbelief,” as a modern-day Samuel Taylor Coleridge might say, and step into the future as we explore what the financial services landscape might look like in 2022.

In many ways, it’s not radically different than 2012. That’s because credit unions in 2022 still lead banks in member satisfaction, loyalty and trust. However, it hasn’t been easy, and more and more players have entered the payments arena, giving consumers a dizzying array of choices.

But the institutions that presciently navigated the perfect storm of mobile, demographic and consumer behavior shifts are reaping the rewards. You might say they caught the “third wave” that futurist Alvin Toffler described way back in 1970 in “Future Shock.”

Whether you call it BANK 2.0 as Brett King did or the “third screen” as author Chuck Martin referred to it, the next generation of mobile devices has revolutionized the way members receive, process, share and store information in 2022. If member experience was the buzzword of 2012, then real-time awesome might well be the moniker of the future.

### Imagine If ...

Take for example, the retail buying experience. Ron Shevlin, senior analyst for the Aite Group, suggests that consumers in the not-too-distant future will have a host of information at their fingertips when they go shopping for something as basic as a pair of shoes. “You’ll be able to use your smartphone or tablet to take a picture of the shoes, or perhaps you just touch an NFC (near field communication) tag,” he says. “You’ll then have access to an enormous amount of data.”

It’s not quite “Star Trek,” but you’ll marvel at how easily and quickly you are able to:

- Determine the best price, aggregated from a number of sources — both online and in the vicinity of where you are — and look up reviews posted by others who have purchased the same shoes.
- Access your credit union’s PFM (Personal Financial Management) app, which can calculate the impact a purchase will have on your monthly budget. It can also give you a history of similar purchases and calculate the rewards points you’d earn by using your credit union’s credit card.
- Make your purchase on the spot using a mobile wallet app that taps into the credit or debit accounts you choose.

### ‘Augmented Reality’

Or take the car-buying experience. By 2022, consumers will be able to use mobile technology to read the car’s sticker or vehicle identification number and pull up information about the car, its price and its ratings. Even more relevant to credit unions, they will know instantly whether they can qualify for a loan and how much





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it will cost. All before they speak to a salesman.

Shevlin notes that so-called “augmented reality” technology already exists in Australia; it allows consumers to point their smart phone at a house for sale and then see the sales price, listing agent and other information on the screen. Imagine being able to also see if you qualify for a loan from your credit union.

Or perhaps using your credit union’s mobile app, you check the availability of a lending officer to make an appointment at your branch. And speaking of brick and mortar, in 2022 branches are fewer yet more strategically aligned with consumers’ new mobility. Remote access will be the norm rather than the exception.

Chad Graves, senior vice president of information technology at Ent FCU in Colorado Springs, Colo., says all of these futuristic scenarios are very real. “Geolocators, merchant codes, NFC, PFM — it wouldn’t take much to put it all together. I foresee that in the next year or two, it will be possible to do all of these things.”

As an example, he points to a new product from iCache called Geode that turns the iPhone into a virtual credit card. Using a detachable card reader, you can register all of your cards with a simple swipe.

You can also use Geode’s barcode reader to register your gift cards. At the point of sale, you can pull up a virtual version of any card you want and then either display a barcode or present Geode’s universal credit card. It even has a fingerprint reader to ensure your mobile wallet can only be accessed by you.

### Reinventing Banking

“The mobile channel will radically reinvent banking,” Shevlin predicts. “Online was all about accessing your accounts anytime from your computer. But mobile can do more. It has location awareness, and it’s with you all the time. It can do remote deposit. It integrates voice and computing.”

Indeed, Gartner forecasts that there will be more smartphones than PCs by 2013. Greg Smith, CEO of Pennsylvania State Employees CU in Harrisburg, Pa., says “doing your banking from your phone is going to become the norm. Remote deposit capture is going to be ubiquitous.”

The evolution of member service, notes Glenn Strebe, CEO of Air Academy FCU in Colorado Springs, Colo., has “gone from face-to-face, ear-to-ear, keyboard-to-keyboard and now thumb-to-thumb.”

The \$423 million Air Academy has taken the first steps toward a predominantly online, mobile delivery platform. Strebe believes his credit union may very well have only one branch within 10 years.

Today, the credit union has nine branches, down from 13 three years ago when it embarked on a re-examination of its branch strategy.

“We took a look at what we called ‘recurring branch users’ — members who visited a branch at least once a month for three consecutive months,” Strebe relates. “What we discovered was that just 20 percent of our members fell into that category. We made a decision that branches were not going to be what Air Academy focused on.”

Strebe suggests that all credit unions need to take a hard look at their business model and decide what they’re good at. “Transactions are not it,” he says. “The Internet commoditized that, and now loans are being done outside the branch in car dealerships and elsewhere.”

So Strebe’s instructions to his staff are to “figure out how to do everything we do at a branch electronically. I tell everyone that we want to be as good as USAA and as cool as Apple. Part of it is creating expectations and recognizing that you will not be able to please everyone, but equally important is recognizing that mobile is the future.”

### Gen Y’s Impact

Already, 22 percent of Gen Y uses an online bank as their primary financial institution; by 2020, Gen Y will dominate the workforce, comprising 40 percent of all workers — all of them in their peak borrowing years.

And online customers have a loyalty not seen elsewhere. According to a Filene

“Everyone wants to be part of the mobile wallet-payments space. If the wrong solution ultimately wins out, traditional revenue streams might be diminished — or completely go away.”

— CHAD GRAVES, SENIOR VICE PRESIDENT OF INFORMATION TECHNOLOGY, ENT FCU





Research Institute brief, “Big, Small, or Online? Young Adults’ Evolving Financial Preferences,” online bank customers say they feel that they have the best combination of features and fees (68 percent) and that online services suit them best (68 percent). “These opinions far surpass those offered by credit union members and big bank customers, and the strength of these opinions shows that ‘personal’ service really means ‘suitable’ service; often, that service is best given online,” the paper’s author, Rob Rubin, CEO of Facilitas, says.

“There is a huge need by credit unions to translate their service superiority into nonhuman-assisted channels,” Shevlin adds. “Management teams don’t get that mobile is changing everything. It’s not sustainable for credit unions to rely on ‘their people and service’ as the differentiator. More and more, transactions aren’t being handled by people.”

### Personal Teller Machines

Coastal FCU in Raleigh, N.C., has been experimenting with the right mix of people, online and brick and mortar. The credit union’s personal teller machines (PTM), first introduced three years ago in some branches, are now in all of its branches. The machines are like ATMs, but a member can speak to a live teller remotely by video. These video tellers operate out of a centralized location and service all 15 of Coastal’s branches.

Willard Ross, Coastal’s senior vice president and chief retail officer, explains that putting PTMs in the branch has “allowed us to focus on a proactive approach to taking care of members.” By 2022, he sees Coastal’s branches transformed into sales-and-service centers. Freed from having to do transactions, “they can focus on other services like wealth management, real estate and lending.”

Coastal is also gearing up for the impact of mobile. “Ultimately, video teller transactions will shrink as more members go mobile,” he says. The credit union is readying a mobile app and plans to introduce remote deposit capture in the second quarter. “With our centralized approach to teller staffing, we’ll be able to

# Small Credit Unions Are Going Mobile, Too

Industry experts concerned about smaller credit unions not being able to keep up with technology probably haven’t met the executive team at \$82 million PortAlliance FCU in Norfolk, Va. Decidedly upbeat about the future, they say that size need not be a barrier.

“We’re just as creative, just as visionary,” says PortAlliance CEO William Owens. “We are definitely going to keep up.”

The credit union just completed a major core conversion (to Symitar) that he says “went smoothly — relatively issue-free.” In addition, the credit union has upgraded its online banking platform and also offers a mobile banking app.

How does it stay competitive with larger institutions? Executive Vice President John Lawrence says that by working with organizations like CO-OP Financial Services and Member Driven Technologies (MDT), a CUSO in Warren, Mich., it is able to purchase new technologies at a fraction of the cost of developing them on its own.

“We’re not spending a heck of a lot of money,” he says. “The key is having someone knowledgeable on your staff in the IT area. We also contract with a programmer to do the customization.”

For smaller credit unions, CUSOs may well be the answer to staying in the game. Christopher Pesola, MDT’s vice president of product management and marketing, says his CUSO’s members have benefited from being able to buy a package of mobile apps for all the major smartphone platforms.

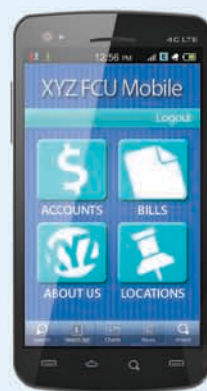
“The advantage of the CUSO approach is that we can research new technologies to see if they are right for our members. We do the leg work, and we can offer them at a reduced price.”

Owens believes credit union profitability, not size, determines technology adoption. “It all starts with profitability,” he says. “If you’re not making money, then you are going to be left behind.”

Pesola agrees. “PFM, RDC, mobile bill pay — these are all add-on costs. At some point, the credit union has to see a return on investment.”

But Owens says some credit unions “don’t understand that you have to spend money to make money. We decided we wanted Internet banking and bill pay; we went after it and figured out how to do it.”

PortAlliance must be doing something right. Owens says the credit union had its best year ever last year, “and we’re going to do even better this year.” 🏡



# Capitol Hill Eyes Mobile Payment Issue

The mobile payments issue has been taking center stage in Washington this spring with a number of hearings in both chambers of Congress. On March 22, the House Financial Services Committee consumer credit panel held the first of three scheduled hearings on the current framework of rules governing the mobile payment market. In particular, the committee is examining whether there are gaps that need to be addressed.

The Senate Banking Committee on March 29 held the latest in its series of hearings on mobile payments, with testimony from Federal Reserve officials addressing information security and financial disclosure issues.

Lawmakers are examining which agency should be primarily in charge, but they are also looking into whether current laws meant to protect consumers from unwanted marketing may need an upgrade in light of the growing acceptance of mobile banking. Those debates only add to the larger difficulty of devising ways to protect a consumer's 16-digit card number and expiration date, not to mention the privacy of all the other personal data kept in a smartphone.

Similar inquiries are also underway elsewhere in Washington, as the Federal Trade Commission held an April 26 workshop to look at data collection practices and the technologies available. The Consumer Financial Protection Bureau is also keeping an eye on the new mobile-payments market. ▲



easily readjust as fewer of our members use PTMs.”

## Navy’s ‘All Channels’

As you might expect, Navy FCU in Vienna, Va., is taking an “all-hands” approach to service delivery. With membership now approaching 4 million (it added 230,000 members in 2011 alone), Navy needs to have a presence in all channels, says Steve Romano, executive vice president of branch operations. Navy has 220 branches and 460 ATMs around the world.

“We want to be able to provide our members with the widest range of options,” Romano says. “Our largest, youngest group is active duty members. They are our biggest online users, and we can expect them to quickly adapt to mobile. But we still need to be able to take deposits at the branch.”

Romano is bullish on mobile (more than 600,000 of Navy’s members were using

its mobile app by the end of 2011), but he says Navy will continue to build branches and has “dozens of new projects slated over the next three years, mostly near military bases.” Last year, Navy opened 11 new branches and relocated seven.

“We had 20 million branch visits in 2011. We’ll continue to grow.”

## ‘Practically Branchless’

At the other extreme, the \$3.8 billion Pennsylvania State Employees CU is “practically branchless,” according to Smith, with just two branches and 12 e-Centers at 13 universities PSECU serves.

The e-Centers are staffed by student interns and don’t do teller transactions. “At those centers, you can join, open an account, apply for a loan online or get training about our services,” he explains. “We’ve attracted 50,000 new members through that channel, and it has helped reduce the average age of our members.

“If you look at USAA’s model,” Smith continues, “it doesn’t have branches in the traditional sense. It has service centers where you can open an account, buy insurance or make investments, but they are not for regular transactions. I think USAA is a pretty good indicator of where the future lies for banking.”

Yet branches aren’t necessarily dinosaurs. “As technology proliferates,” Shevlin says, “there will be more choices of how to do things. Whatever is the most convenient at that time is what the consumer will want. So you still need all the channels. Nothing is going away.”

Graves agrees. “Members still want convenience at their time of choosing, and I believe that branches will play a role in that for the foreseeable future,” he says. “I think that the bigger question is how many or how few branches a credit union can have and still be considered a compelling choice when looking for a new financial institution.”

## Changing Behavior

In a Filene report called “The Future of Member-Facing Technologies for Credit Unions,” Shevlin predicted that over the next five years three interrelated trends will drive member service: financial advice and guidance, social networking integration and purely mobile apps.

“Perhaps the biggest impact of mobile is on buying behavior,” Shevlin explains. “Many large banks just don’t get it. They are too focused on the affluent customer. It’s a huge opportunity for credit unions.”

According to his research, there is evidence already that those consumers using PFM apps and software feel like they have better control over their finances, are saving more and have managed to reduce their fees.

“With mobile, you’ll be able to do price comparisons, get opinions like Yelp reviews,” he continues. “With geolocation, it will be able to tell you where else to look. What role do financial institutions have in this? ‘Guess what, if you use our card instead of the store’s, we’ll give you a reward.’ The key with all of these technologies is inserting yourself into the buying process.”

## Serious Challenges

It's a rosy scenario for those credit unions able to catch the mobile wave and figure out new ways to make their services convenient yet still member-focused. However, that's not to say that the future won't have its share of serious challenges.

David Hilger, senior vice president of information technology for Allied Solutions, a NAFCU Services Preferred Partner, believes that integrating these new technologies is going to be tough.

"Delivering data in a safe and secure manner is the real question," he says. "There are real barriers when so many systems don't talk to each other."

Hilger isn't sure those barriers won't be overcome until uniform standards are adopted by the industry. He likens it to the Internet prior to the adoption of HTML as the standard protocol for building websites. "Sometime in the next 10 years, I hope, maybe sooner, we'll have those standards," he predicts.

Smith says security remains his number one concern. "We'll spend over \$1 million this year on security defenses," he says. "Fraudsters are everywhere. Consumer PCs are infected like you can't imagine."

His credit union has begun offering its members a free browser plugin called Trusteer that protects against fraudulent logins. But he and others wonder how protected consumers will be on mobile platforms and how safe their personal information really is.

## Competing for Payments

Then there is the issue of payments. Graves says one of his biggest fears is a PayPal, Google, Apple or Wal-Mart making inroads on the mobile payments space.

"There are significant revenue implications for credit unions," he says. "Everyone wants to be part of the mobile wallet-payments space and potentially unseat banks and credit unions. If the wrong solution ultimately wins out, traditional revenue streams might be diminished — or completely go away."

For now, experts say credit unions need to focus on their business model and take a

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look at how all of their channels support that model. They also need to be keenly aware of the changing demands and needs of younger members. Casting a large shadow (or rainbow) over everything is mobile. It will be the “game-changer” that shapes all facets of financial services in 2022. 🏠

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## Glossary of Tech Terms

**Application or app** — An application is a software program that runs on a computer. Web browsers, e-mail programs, word processors, games, and utilities are all examples of applications. Each program has a specific application for the user, hence the term.

**Augmented reality technology** — A live, direct or indirect, view of a physical, real-world environment that relies on elements augmented by computer-generated sensory input such as sound, video, graphics or global-positioning satellite data.

**Geocator** — Technology that enables a user to identify the real-world geographic location of an object, place or person.

**Merchant code** — A four-digit number the credit card industry uses to classify a merchant's business. These codes also allow credit card companies to track and, in some cases, prohibit purchases.

**Mobile wallet** — A feature in some wireless devices that allows the user to securely store personal information, such as payment card details and user names.

**Near field communication or NFC** — A small chip inserted in smartphones that offers multiple functions, including one-touch payments where users simply wave their phone near a sensor to charge their credit card for a purchase.

**Remote deposit capture** — A service that allows a user to scan checks and transmit the scanned images to a financial institution for posting and clearing.

**Personal financial management or PFM** — An accounting program that helps individuals balance their checkbooks and manage their finances.

**Personal teller machine or PTM** — A technologically-enhanced video interface that allows tellers to provide traditional banking services to multiple branches from a single remote location.

**Yelp** — A local search and reviews online service. 🏠