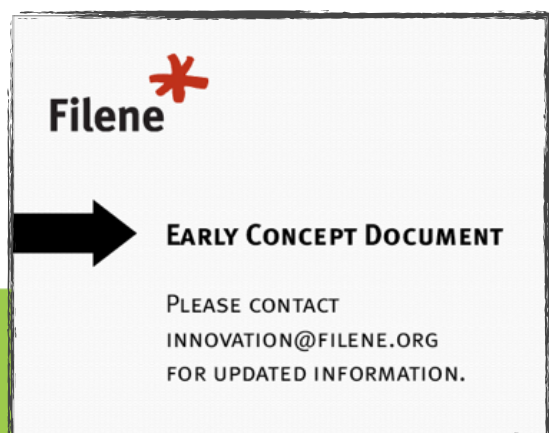




## CONCEPT DOCUMENT

March 2013



### TEAM X MEMBERS:

David Klavitter, *Dupaco Community Credit Union, Dubuque, Iowa*  
William Azaroff, *Vancity, Vancouver, British Columbia*

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*A note from the members of Team X:*

*Filene's innovation methodology helped us to foster an idea, which we passionately believe will address long-term challenges for North American credit unions and their members. However, Team X discovered the activities necessary to guide its lofty idea through the existing innovation process exceeded certain time constraints of the i3 program. While our credit union day jobs offer us a wonderfully pragmatic way to earn our livings and feed our families, we believe the Filene i3 program offers a safe place to swing for the fences.*

*With best regards to our i3 colleagues and Filene supporters, we dare to fail.*

*--William and David, i3 Team X*

## THE OPPORTUNITY

The housing market implosion, the great recession, consumers' lost wealth and opportunities—as well as the resulting Occupy and Bank Transfer Day Movements—were watershed events that shaped a generation of North Americans. These profound changes have created a cultural shift that aligns perfectly with credit unions' cooperative structure and mission of service.

According to the Credit Union National Association, this change is “a move toward values-based decision-making. A move away from big corporations and big banks. Americans are looking for an alternative in financial services.”<sup>1</sup>

Furthermore, a recent Filene report finds that “millennials are losing confidence in for-profit financial institutions and are open to suggestions, especially from friends and family. More than 51% of Canada's millennials consider themselves to be ethical consumers. Credit unions have a unique and compelling story to tell millennials rooted in their community-based activities.”<sup>7</sup>

North American credit unions not only have an opportunity to ride this wave—they have an obligation to harness it.

An increasing number of examples of values-based banking have emerged in the credit union and public consciousness:

- Virgin Money and USAA successfully brand themselves in a very member-oriented (credit union) way;
- The Global Alliance for Banking on Values is increasing its membership of values-based financial institutions around the world; and
- The “buy and eat local” movement is gaining momentum.<sup>2</sup>

These trends offer good news for credit unions. However, to leverage these trends in a way that creates opportunities for growth for credit unions has been difficult. Too much of the credit union value proposition has devolved into price. Credit unions must move beyond philosophy of “one size fits all.”<sup>4</sup>

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The Credit Union Well-Being Incentive Program™ addresses that gap by creating a product and marketing solution for credit unions to showcase their differentiators and market their brand.

***No margin, no mission. No mission, no margin.***

Large financial institutions have increasingly leveraged their scale to compete on place and promotion. Non-traditional companies have increasingly leveraged technology to innovate on product, service and price. To effectively compete, credit unions must differentiate themselves by doing what they originally were created to do: Serve the financial needs of people with shared values—originally known as a “common bond.”

A credit union’s expanded ability to serve more people outside its original field of membership has provided opportunities for membership growth. However, to be successful, a credit union’s brand must intensely represent a set of values, most relevant to people who participate in the cooperative and, thus, sustain it.

This innovative program is a way to carve out new territory, and differentiate from banks and competitors by leveraging credit union’s co-operative roots and shared values, not around a traditional demographic, but instead around an emerging psychographic of sustainability and social responsibility.

Credit unions have employed many traditional ways of measuring members’ worth in terms of assets, number of products, and share of wallet. But these measures keep credit unions emulating banks’ behavior. An opportunity exists for credit unions to reward their members based on personal values and behaviors and, in doing so, attract and retain members who choose credit unions as their financial institutions for all the right reasons.

The goal is to reward the value of shared values, and enable individual credit unions to define these values independently beyond the benefits of democratic control, service and rates that are the traditional levers used to attract and retain members.

The goal is to increase participating credit unions’ relevance to a set of consumers with a sustainable and local mindset and through that relevance grow the number of participating and engaged members, whose financial activities increase the credit union’s bottom line and market share.

## THE SOLUTION

Group X’s hypothesis is that members who make good choices by living more responsibly in terms of their environmental footprint, community activities and personal actions are less risky, highly aligned and more loyal members who will become stronger advocates and more profitable over the long term. These are members with whom credit unions can share more of their profits and on whom they can take greater risks.

A person’s sense of well-being improves when he or she considers their impact in the world, make choices to improve their local community and individual circumstances. When a credit union considers these member choices, it rewards these members, creating opportunities for reciprocal growth. It’s the cooperative’s sustainable circle. That is the basis of The Credit Union Well-Being Program’s tagline: *Think globally. Act locally. Enrich individually.*™

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North American credit unions currently face several challenges:

- An increasingly aging member demographic (average age is 47);<sup>3</sup>
- A need for increased lending; and
- A brand that is misunderstood and less appealing than it deserves to be.

This program, if deployed effectively, primarily will attract a new generation of consumers, engaged by a credit union's mission. Secondary outcomes could offer credit unions another measure of risk, thereby increasing opportunities to put more loans on their balance sheets.

For example, The Credit Union Well-Being Incentive Program™ may look at a person's social capital as an indicator of a person's character, with the aim to re-emphasize this "C" of lending, resembling the way credit unions lent to people 50 years ago when credit unions were at their heyday and seen as an important source of credit in their communities.

The Great Recession negatively impacted overall consumers' credit scores, young consumers have yet to create good credit ratings, and people suffering from health issues who have missed payment for reasons beyond their control all need help that credit unions could provide in a way that simultaneously promotes their mission and strengthens their balance sheet.<sup>5</sup>

Consumers who endeavor to improve their communities by acting in a socially responsible and sustainable way will participate more in their credit union and *may* be of a superior credit risk compared to consumers that do not act in a socially responsible way (this is something we seek to verify and hope to prove).

Through this program credit unions could reward members by offering some or all of:

- Better rates
- Lower fees
- Higher dividend and patronage
- Increased credit worthiness
- Entry into a lottery based on points accumulated through this program, winners receive financial products.
- Greater "voice" into credit union through a community advisory committee / granting

To members who demonstrate behaviors such as:

- Financial health and literacy
- Reduce energy consumption by retrofitting house or use programmable thermostat
- Grow vegetables
- Satisfaction / safety in community
- Volunteer at local not-for-profits, school, church or community organization
- Sit on any community boards
- Carpool, take transit, walk or bike instead of driving
- Efficiency of vehicle

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- Donate blood
  - Belong to cooperatives
  - Shop locally
  - Recycle / compost
  - Work / life balance
  - Buy from community supported agricultural groups
  - Exercise regularly

And, as a result, these credit union members:

- Increase participation in their credit union;
- Increase their credit scores and borrowing capacity; and
- Become stronger advocates of the credit union.

#### *How it works*

We propose asking members a set of questions adjusted for each credit union's mission, community priorities and focus that delve into people's personal behaviors that align to the credit union's values. The credit union would also have a benchmark derived from the general population responding to this same questionnaire. The goal is for credit union members to score higher than the average person in that trade region and be rewarded for moving the credit union mission forward and by increasing their socially responsible behaviors and actions.

Through the member responses, a credit union would reward aligned members through benefits such as enhanced rates and lower fees, increased credit card reward points to spend on financial products, entry into a lottery to win financial products, an increased share of patronage dividend and a greater voice into the distribution of profit back to community. Credit unions can build greater loyalty with those members who are their greatest advocates, increase relevance, market share and profitability and drive the kind of positive impact they want to see in communities.

#### *The mobile app*

Through a mobile app, members will know their Well-Being index score and see how they compare to the average person in their city and the average credit union member. They can increase their score by taking further Well-Being actions.

The mobile app will help members prove that they are, in fact, following through on their commitments to increased well-being. An increased score translates into better rates, lower fees and increased dividends at the end of the credit union's fiscal year.

Additionally, credit unions can reward members with high index scores at the end of a set period (monthly, quarterly, annually). Members who show marked improvement in their score, or who score above the median credit union member score will be entered into a lottery for financial products. The winners will receive financial coaching and advice as to whether to use their product to pay down loans or towards savings goals.

The app plays an increasingly important role as more credit unions take up the program. On the back end, the app aggregates all the scores from participating credit unions, demonstrating through metrics

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how credit unions improve the individual lives of their members, help those members get ahead financially and improve the communities in which they operate. These metrics will play an important role in how credit unions market and brand themselves. It is for this reason that this program is best operated by a CUSO or a company like Currency Marketing who can roll it out to multiple credit unions like their successful Young & Free program.

#### *Customization Options*

It is critical that The Credit Union Well-Being Incentive Program™ be customized to support any credit union's individual size, demographics, organizational strategies, community needs or mission.

Customization options include:

1. Ways to reward
  - Better rates
  - Lower fees
  - Higher dividend and patronage
  - Increased credit worthiness
  - Entry into a lottery based on points accumulated through this program, winners receive financial products.
  - Greater "voice" into credit union through a community advisory committee / granting
2. Questionnaire
  - Can select best 8-12 questions for credit union needs from a list of 30-40 questions
3. Public Engagement (example: tweeting photos of activities in questionnaire)
  - Can make engagement optional and encouraged
  - Can make engagement mandatory as ways to prove activities and earn the self-reported score
4. Advocacy
  - Measurement of advocacy can be through integrating Net Promoter Score
  - Can leverage Klout score of participating members
  - Increase in members contacting elected officials about credit union issues
  - Increase in positive social media mentions about participating credit unions (especially compared to non-participating credit unions)

## TARGET MARKETS

There are two levels to the target market for the Credit Union Well-Being Incentive Program™: Credit union and consumer.

#### Credit Union Target



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This program is aimed only at credit unions who understand that without a strong margin they cannot fulfill their mission, but equally understand that without a strong mission they cannot achieve sustainable margins over the long term. These credit unions:

- Are financially strong
- Stayed true to their core values;
- Refined and evolved their brands, and
- Are looking for a progressive step to move forward.

This innovative program is a way for credit unions to carve out new territory, and differentiate from banks and competitors in a way that stays true to our co-operative roots and shared values.

Moving towards a deeper, values-based approach to financial services makes good economic sense.

A 2012 study found that sustainable values-based banks—which base their decisions first and foremost on the needs of people and the environment—are outperforming traditional mainstream banks in many areas, including financial indicators such as return on assets, growth in loans and deposits, and capital strength, making a compelling case for values-based banking.<sup>9</sup>

The report examined the performance of 17 values-based banks compared to 29 of the world’s largest and most influential banks between 2007 and 2010 in an effort to show the benefit that sustainable banks can have on underserved people. These 29 banks are defined as Globally Systemically Important Financial Institutions (GSIFI) by the Financial Stability Board. Often referred to as “too big to fail,” they include Bank of America, JP Morgan, Barclays, Citicorp and Deutsche Bank.

The report concluded that

- Values-based banks were twice as likely to invest their assets in loans, lending more than 70% of their assets during this period on average.
- Values-based banks also appear to be financially stronger with higher levels of, and better quality, capital. The BIS 1 Ratio, an important measure of a bank’s solvency, averaged over 14% during the period studied, compared to less than 10% for the mainstream banks.
- Sustainable banks also had an average equity-to-asset ratio of more than 9%, while the GSIFI banks averaged just over 5% during the period covered.
- Sustainable banks analyzed in the report also delivered higher financial returns than some of the world’s largest financial institutions. Return on Assets, the measure increasingly considered most relevant for judging a bank’s financial performance, averaged above 0.50% while the big banks earned an average of just 0.33%.
- Values-based banks also had returns on equity averaging 7.1%, compared to 6.6% for the GSIFI banks.

#### Consumer Target





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- Social and cultural vibrancy.

Part of this effort now includes *Smarter Sustainable Dubuque*, which is a unique public/private partnership between the City of Dubuque and IBM Research, the division of IBM responsible for its "Smarter Planet" campaign. The project was initiated in September 2009 when the City of Dubuque and IBM announced their intentions to make Dubuque one of the first "smarter" sustainable cities in the U.S.

*Smarter Sustainable Dubuque* provides city residents the information and tools they need to make smarter choices about resource consumption. The initiative engages Dubuque residents and businesses who, through advanced technology, will be able to voluntarily better manage their use of resources like water, electricity, oil, and natural gas. Individual wellness will also become a component.

Filene i3 Team X currently is engaged in discussions with officials from the City of Dubuque and Greater Dubuque Economic Development Corp. to determine opportunities for collaboration—including blind data comparisons—in these well-being and sustainability efforts.

## CONSUMER BENEFITS

Consumers who take part in the program will be offered rewards such as:

- Better rates;
- Lower fees;
- Higher dividend and patronage;
- Increased credit worthiness;
- Entry into a lottery based on points accumulated through this program, winners receive financial products;
- Greater "voice" into credit union through a community advisory committee / granting;
- Improved sense of personal, community and global well-being.

## CREDIT UNION BENEFITS

Each credit union's success can be measured in several ways, among them:

- Increased growth of participating members;
- Establishment of a Well-Being Index Score;
- Average member score;
- Average score of trade region;
- Increased dollars reinvested into aligned members;
- Increase in positive social media mentions about participating credit unions (especially compared to non-participating credit unions)
- Annual comparison to 2013 benchmark well-being survey of membership to measure increase in number of members who score high on index and participate more in the credit union;
- Determine definition of the ideal member based on index score and credit union usage (engaged, aligned, advocate, fan, etc.);
- Improved brand awareness;
- Decrease in age of average member;

- Increase in credit union services per household;
- Increased household profitability;
- Increase in net promoter score;
- Increase in consumer loans among people with no or poor credit score by which the credit union uses well-being index to make a loan (interest rate still determined by FICO score)
- Increased member satisfaction
- Increased employee satisfaction
- Increased earned media placement;
- Increased usage of cooperative participation discounts and/or rebates

## PILOT RESULTS

Team X's next steps to be completed over the next Filene i3 cycle include:

- Complete hypothesis testing within credit union membership (index score testing currently in-field among Dupaco members);
- Investigate marketing program partnership with Currency Marketing or similar (ASAP);
- Develop financial pro-forma;
- Align to Dupaco annual planning cycle (August-November);
- Align to Vancity's annual planning cycle (August-November); and
- Align to Vancity's new Innovation Pipeline timeline (begins May 2013).

## OPERATIONAL AND OTHER CONSIDERATIONS

While this project continues to be refined and tested, Team X currently sees three potential implementation models:

- A marketing program similar to Young & Free licensed to participating credit unions (favored approach).
- A CUSO solution offered to multiple credit unions to work together; and
- An in-house product solution taken up individually by credit unions;

## FINANCIAL PRO-FORMA/ROI

The financial information will be updated after initial testing is complete and technology requirements are determined. The target date for financial information is third quarter of 2013.

## RESOURCES

Cindy Brucato, GTE Financial Credit Union; Dana Clark, Nutmeg State FCU; Soma Sarkar, Credit Union of New Jersey; Heather Kaart, Tara Lynn, John Lo, Rich Seres, Vancity; Joe Hearn, Matt Dodds, Steve Ervolino, Dupaco Community Credit Union; Philipp Kallerhoff, Jumiya; Cori Burbach, Chris Kohlmann, City of Dubuque; David Lyons, CoOpportunity Health Insurance; Rick Dickinson, Greater Dubuque Development Corp.; Eric Dregne, Community Foundation of Greater Dubuque; Tim McAlpine, Currency Marketing.

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11. "Sustainability Progress Report for the City of Dubuque." University of Iowa School of Urban and Regional Planning. 2012.

## GETTING STARTED

To learn more and stay updated, share an idea or join this endeavor, contact William Azaroff at [william\\_azaroff@vancity.com](mailto:william_azaroff@vancity.com) or David Klavitter at [dklavitter@dupaco.com](mailto:dklavitter@dupaco.com).