



KarmaDirect

CONCEPT DOCUMENT

Karma Direct

TEAM MEMBERS

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PROBLEM DEFINITION

Have you ever wondered how a company decides where to donate money? Companies across the world – and especially credit unions – talk about how important the voices of their customers are, but few can truly show that value. Credit union membership means something different than purchasing from a for profit company. But tying that membership to something that brings a real sense of pride and ownership is very difficult to do.

In today's world, social responsibility is no longer a choice – it is a requirement. A 2010 study by Cone Communications found that 85% of consumers think more favorably about businesses that give to a charity they care about. And, a 2013 study from Cone Communications and Echo Research found more than 90% of shoppers, price and quality being equal, would switch to brands that support a good cause.

These issues combined to help us come to the problem statement, “How might we (credit unions) use charitable giving to enhance our relationship with our members?”

To further prove that the problem exists, our team decided to conduct our own surveys. The surveys contained 5 questions each that were developed to determine the interest in a product that would help solve this problem. There were two different surveys, one for credit union executives and another for consumers.

Survey Responses:

- Credit union executives survey – 35 Responses
- Consumer survey - 50 Responses
- Respondents represented multiple states throughout the U.S. and Canada

Results supported our hypothesis that people and credit unions agree there is a need and would support a program like Karma Direct (solution outlined in the next section). Key findings are as follows:

- When describing the solution 77.14% of the executives surveyed would be interested in offering it at their credit union.
- When asked “Do you know of any product currently filling this role?” 88.57% of the executives surveyed said “No”.
- When asked “Is your credit union already doing something to fill this need?” 82.86% said “No”.
- When asked “How much does a company's community involvement/charitable giving influence your decision to do business with them?” 88% of consumers surveyed responded with “Somewhat” or “A lot”.
- When asked “If you had an opportunity to influence an organization's community giving would you care?” 92% of consumers surveyed responded “Yes”
- When asked “Do you like the idea of being able to dictate where an organization donates funds?” 86% of consumers surveyed responded “Yes”.

We reached out further into the credit union movement to determine if our solution was desirable and viable. According to Christopher Morris, Director of Communications at the National Credit Union Foundation, *“Philanthropy and concern for community are core principles of credit unions. Karma Direct seems like a powerful way to leverage charitable giving to deepen the relationship with members and make a difference.”*

INNOVATIVE SOLUTION

Pretty much every organization (including credit unions) makes some donation to causes throughout the year. And, many of them have an annual budget – let's say it is \$10,000. Does anyone know that you donate that money? Do your members get a chance to influence where that money goes? They are the owners of your credit union after all – shouldn't they have a say? And, shouldn't your credit union get the positive benefit that comes from sharing where you are donating money?

We want to take an old backroom, committee-driven approach that governs how most credit unions give to charities today and bring it out into the light ... and give it some digital sparkle ... and slap on a coat or two of slick gamification. Our passion is driven by the fact that we think this is a key differentiator, and if we make it a key element of online banking, it will have other positive beneficial effects and make credit unions stand out.

Our innovative solution takes the mundane tasks of banking and being a member and attaches an element of karma to them. Karma Direct is a program that gives members an influence over where the credit union directs its donations. For every bill payment, new loan, payroll deposit, and new investment, the credit union awards Karma Points into the member's Karma Direct account. The member can then choose how to allocate their points toward causes that resonate with their values. Whether it's the local children's hospital, or the food bank – or both – the member can allocate their points however they want, and thus communicate with the credit union what causes matter most to them.

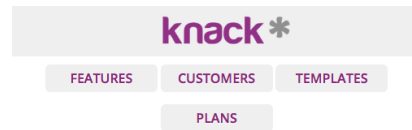
If you remember, our example credit union has \$10,000 to donate this year. They would proportionally allocate their donations toward what the members said was important to them. What could be more cooperative than that?

Taking this often performed (but very underappreciated) element of what credit unions do, and giving members a fun way to participate, will bring the credit union difference to life. How? By reminding members with every transaction why they joined the credit union and what their credit union is doing in their community.

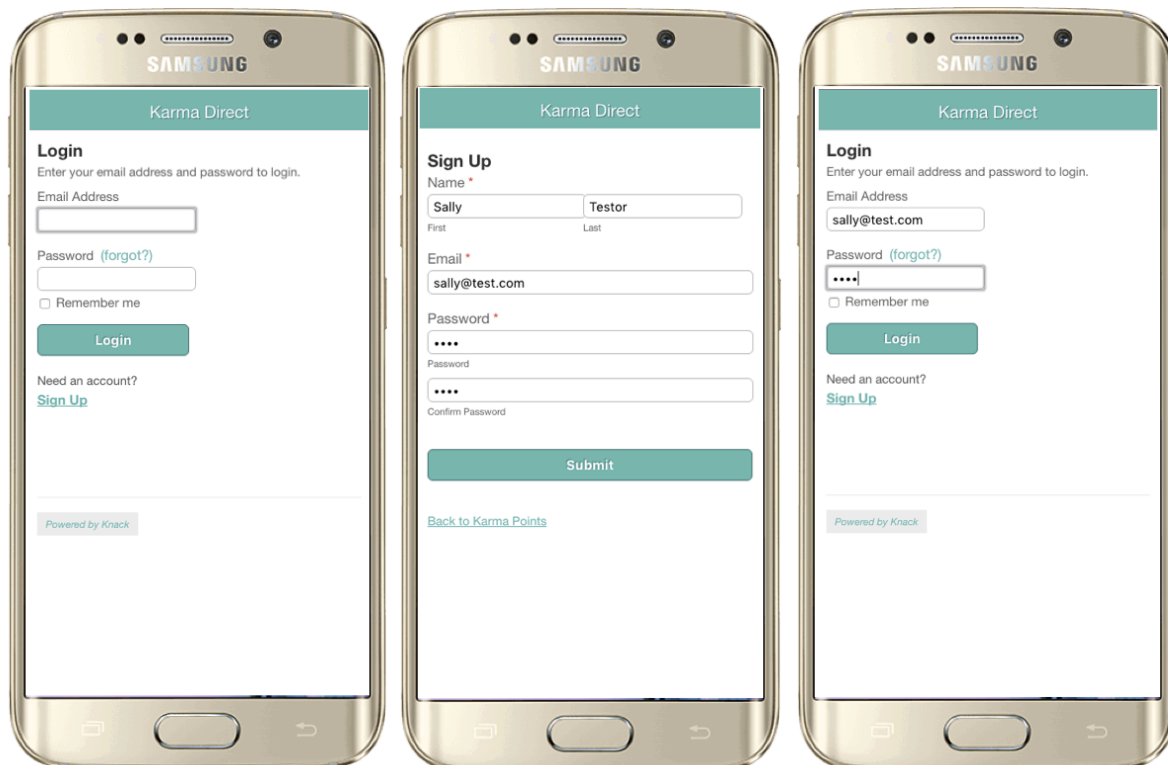
PROTOTYPE

Karma Direct is a program that will be driven by credit unions, but to do so there will be a technical application used to allocate points. The member will use this same application to direct and influence the credit union's support of local charities and organizations.

In order to create a prototype that could be used to test the concept, we used an online database tool called Knack. This tool allows new users to register and automatically assigns them points based on their relationship. Members create a username and password and then they are able to log in to view and assign their points. The app we built has three tabs. The first shows the logged in member and the number of points they have available. Tab two is where the member can view the service organizations and charities the credit union has chosen to be eligible for receiving Karma Points (and later, a donation from the credit union). In this tab the member can also assign points to any of these campaigns. Tab three is a summary of how the credit union members as a whole have assigned their points. The flow of these screens is outlined below.



Build the **database**
that **builds** your business



Along with building a working prototype that will collect member data, we used a program called Marvel to create a working flow of the screens so we could show a better vision of how we expect the program to work from within a credit union's mobile banking application. These screens are shown below.



TESTING AND RESULTS

In order to test the effectiveness of our prototype, we invited individuals to use it and provide feedback. We reached out to individuals working in credit unions, as well as those who don't, in order to provide a wide range of perspectives.

A total of 82 people took the survey (and therefore tested the prototype). Of that group, approximately 75% were credit union employees and the other 25% were not. If we were to roll out the testing to a larger group (in a future phase) we would make sure to include more non-credit union employees.

The results of the survey were very favorable for Karma Direct. Over 90% of users said they would use the product at least annually. With 25% of those saying they would use it quarterly and 34% saying they would use it on a monthly basis. Less than 9% said they would not use the product.

When asked the question, "Imagine two financial institutions are each planning to give \$10,000 this year to charitable causes. If one offered Karma Direct (so you can influence the recipients of the gifts) and the other did not, how likely would you be to use the financial institution offering Karma Direct?" Thirty-four percent said they would be highly likely, 54% said somewhat likely, 10% said not likely and only 2% said less likely.

When asked about the likelihood to use additional products in order to earn more Karma Points, 89% answered "yes."

Many of the respondents took time to provide feedback on the concept, most of which was favorable and showed engagement with the prototype.

BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA

This product would ultimately be compatible with any mobile and online banking system. It's a matter of having simple coding that directs consumers to the Karma Direct site where they can manage their Karma Points. Karma Direct could even be a cross selling tool as members are informed of ways of earning more points. For example, "You have allotted all of your Karma Points. You can earn more points by using our Bill Pay system, opening a new account, applying for a loan or receiving an insurance quote." We feel that credit unions will desire to have an experience differentiator that sheds light on their good deeds. Our recommended pricing model is based on number of members enrolled in online and mobile banking.

Karma Direct Pricing Tiers

| Tier 1 | Number of CU Online Users | Monthly Subscription | Annualized | Initial Setup and Installation Fee | Total 1st year |
|----------|---------------------------|----------------------|-------------------|------------------------------------|-------------------|
| 1 | 1 to 1,000 | \$125.00 | \$1,500.00 | \$500.00 | \$2,000.00 |
| 2 | 1,001 to 5,000 | \$175.00 | \$2,100.00 | \$750.00 | \$2,850.00 |
| 3 | 5,001 to 10,000 | \$250.00 | \$3,000.00 | \$1,000.00 | \$4,000.00 |
| 4 | 10,001 to 20,000 | \$375.00 | \$4,500.00 | \$1,250.00 | \$5,750.00 |
| 5 | 20,001 to 40,000 | \$500.00 | \$6,000.00 | \$1,500.00 | \$7,500.00 |
| 6 | 40,001 to 60,000 | \$625.00 | \$7,500.00 | \$1,750.00 | \$9,250.00 |
| 7 | 60,001 to 80,000 | \$725.00 | \$8,700.00 | \$2,000.00 | \$10,700.00 |
| 8 | 80,001 to 100,000 | \$875.00 | \$10,500.00 | \$2,500.00 | \$13,000.00 |
| 9 | 200,001+ | \$1,000.00 | \$12,000.00 | \$3,000.00 | \$15,000.00 |

3-Year Financial ProForma

OVERHEAD EXPENSES

| | YEAR 1 | YEAR 2 | YEAR 3 |
|---------------------------------------|--------------|-------------|-------------|
| Up front development costs / upgrades | \$ (150,000) | \$ (50,000) | \$ (50,000) |
| Ongoing marketing expenses | \$ (25,000) | \$ (50,000) | \$ (75,000) |
| API Storage Expense | \$ (10,000) | \$ (20,000) | \$ (30,000) |

TOTAL EXPENSES **\$ (185,000)** **\$ (120,000)** **\$ (155,000)**

Revenue: Subscriptions and Setup Fees

| | | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| Annual fee | \$ 195,000 | \$ 405,000 | \$ 600,000 |
| Initial Setup and Installation Fees | \$ 65,000 | \$ 70,000 | \$ 65,000 |
| Total | \$ 260,000 | \$ 475,000 | \$ 665,000 |
| PROFIT BY YEAR | \$ 75,000 | \$ 355,000 | \$ 510,000 |

ASSUMPTIONS

- 1) Overhead expenses based on previous projects working with Horsetail
- 2) All credit unions based on the 4th Pricing Tier of 10,000 to 20,000 online users equals \$4,500 a year in subscriptions (the 6,557 credit unions in the US have an average of 15,250 members).
- 3) All initial setup fees based on the 4th Pricing Tier, which equals \$1,250 per setup.

| | | | |
|---------------------------|--------|--------|--------|
| Number of credit unions | Year 1 | Year 2 | Year 3 |
| (Based on Tier 4 Pricing) | 65 | 135 | 200 |

COMMENTS, NEXT STEPS, AND CALL TO ACTION

As next steps, we see Karma Direct evolving to become hyper-local, so that members will be able to support charities that are local to their branches, have those charities be shown when fellow members of the credit union use Karma Direct. We also see Karma Direct evolving for members to nominate charities for the membership to support. In addition we are looking to add a component that will show the past support of charities by category (education, sports, animal welfare, etc.) and compare that to the general giving of the organization.

Imagine a credit union CEO presenting a visual at their annual meeting that shows how the credit union has distributed donations based on the members' influence. Karma Direct puts a new and heartfelt spin to the cooperative spirit of credit unions and the philosophy of "People Helping People".

If you want to increase your karma and help credit unions give back to the communities in the ways their members want, contact the Filene Research Institute about your interest to support Karma Direct.

Thank you for your consideration.

ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

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