HAPPY MEMBERS, SUSTAINABLE CREDIT UNIONS

THE OPPORTUNITIES IN FINTECH

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SOLUTION CENTRE

CONTENTS

01

INTRODUCTION

In Paper 1 we explored the rapidly evolving world of FinTech and its transformative effect on financial services. In this Paper we examine practical examples of how FinTech can be applied to help Credit Unions and how best practice can ensure the digital transformation journey is delivered on time, on budget and with mitigated risk.

Significant threats exist for Credit Unions which should not be underestimated. Chief among these is competition from both traditional sources, with Irish banks now advertising 3 hour turnarounds on credit applications, and new entrants such as N26 and Android Pay who use specialism and superior digital capabilities to offer real-time financial services in a highly convenient manner.

Credit Unions can therefore expect increased competition, especially for their large deposit base and high quality borrowers. A lack of digital channel makes Credit Unions especially vulnerable to disintermediation, in the future member needs may be fulfilled before they think of, let alone visit, their Credit Union.

FinTech presents many more opportunities than threats however – expanding market reach, engaging members better, creating a sustainable financial model and a more adaptive business model. With adequate resources to hand, members requesting change and external factors conspiring to create a challenging path; a moment of truth looms, digitalise or decline.

Quick wins are possible. First and foremost must be creating a better value proposition for members as this is the long-term driver of value. Adding a digital channel that meets member expectations will radically extend market reach and provide members with convenient anytime, anywhere service. Member experience can be improved by making service more streamlined and personalised. Developing a digital capability is also a pre-requisite for appealing to younger segments of the market and being able to provide new solutions, be they proprietary or third party via API.

Strategic cost management is also a priority. While there is rightly a lot of focus at present on ROA, the Cost : Income Ratio must not be neglected as it remains high across the system, even for top performers, nor is the era or higher regulation and negative interest rates likely to abate soon. Inefficient manual processes such as member onboarding, data collection, analysis and reporting are well suited to automation, the subject of Paper 3.

Digitalisation is also important for improving governance, be it reducing bad debts, avoiding fraud or managing risk in a proactive manner. Advances in analytics will improve this area significantly in the coming years.

To be clear, FinTech does not need to result in the closure of branches or loss of jobs, rather it will empower Credit Unions to do more, better and faster. Nor is size a constraint, improvements in the price and usability of FinTech make it more accessible than ever and the early successes of the Solution Centre prove that the system is well suited to implementing shared solutions to leverage scale and best practise.

The higher surpluses available – both from increased revenues and lower costs – can be used to improve member service, increase dividends to loyal members and allow Credit Unions to deliver upon their social obligations like never before.

02

MEMBER INSIGHT

FROM STATIC DATA TO DYNAMIC BUSINESS INTELLIGENCE

With 3.1 million members, the Credit Union movement possesses a veritable goldmine of data on the needs of its members, wealth of the Irish nation and its economic habits.

However, this data is rarely utilised to its full potential, existing either in paper form or residing in legacy systems without the knowledge to utilise it. Scarce resources are expended collecting and analysing data for credit applications or running campaigns which are based as much on hope as fact.

Rapid advances in analytics are creating a 'data driven' economy where previously siloed and unstructured data is transformed into business intelligence and used to improve value propositions. Customers receive more personalised offers, businesses better understand how and where value is created and can direct resources to it. Engagement becomes dynamic and smart, with each interaction providing data to improve the next.

Digitalisation is essential and solutions such as Microsoft Dynamics 365 being piloted by The Solution Centre is an important first step. In The Solution Centre pilot six Credit Unions will employ enterprise level CRM (customer relationship management) and ERP (enterprise resource planning) systems in an integrated, data driven solution to improve how they analyse members.

SALES AND MARKETING

BEFORE CRM	AFTER CRM
• Manual process	• Automated process
• Product push	• Member pull
• Feature guessing	• Requirement validated
• Reactive	• Proactive
• One-off campaign	• Smart, constant
• Cost focus	• Value focus

With this solution, Credit Unions are better able to understand their market based on factors such as age, income and financial life stage, be it borrowing, saving, asset growth, family wellness or asset protection. Through deeper analysis on an individual and broader membership level it becomes easier to identify member needs the credit union can satisfy and automate key elements of the process.

The collection of leads will not be limited to online origination through the web or social media. It will also support point of sale leads generated from local motor dealers and retailers, with members directed to the correct Credit Union in real-time through a central data hub. In digitally advanced countries such as Estonia such solutions provide credit decisions in less than 15 minutes, benefitting consumers, lenders and retailers alike.

Over time, as more and better data is transformed into business intelligence, it will become easier to identify which products have best fit, where the requirement for regulatory approval of new products or services may exist and to present fact based submissions to the regulator. It will become normal to use such intelligence to identify how and where value is created and develop appropriate strategies, be it for member acquisition, retention, growth or efficiency.

Deeper insights on demographics and member needs far surpassing anything available today will result in a more competitive offering and more efficient operations that will ultimately benefit members and the credit union. New opportunities will also emerge on a movement level as a common data set makes it easier to benchmark performance, share best practice and address weaknesses. At such scale, combined with shared costs and the most trusted brand in Ireland, Credit Unions will continue to be both relevant and highly competitive.

Challenges exist, getting IT providers to integrate to a common model is one, getting staff to capture member data reliably another, however utilised correctly this solution will generate multiple benefits and significant ROI.

TARGET BENEFITS

REVENUE GROWTH	MEMBER ENGAGEMENT	BUSINESS INTELLIGENCE	GOVERNANCE
CRM provides qualified sales leads and resources for meeting multiple needs and attracting new, young members.	Members receive more personalised offers, increasing relevance and therefore conversion rates and building loyalty.	Credit Unions will understand what activities are most profitable and deliver these in a consistent and efficient manner.	Decision making is based on verified data and requirements rather than assumptions, management becomes more dynamic.

03

MEMBER ENGAGEMENT

PHYSICAL, DIGITAL, PROFITABLE

To remain relevant and competitive it is essential Credit Unions pursue an omnichannel strategy, maintaining a branch presence for those members who lack the desire, ability or willingness to use digital but providing anytime, anywhere convenience for those who do or indeed for those whose lifestyle requires it.

3.1 BRANCH CHANNEL

Whilst out of the scope for this paper, it is worth noting that FinTech is impacting the look and feel of branches. Clutter and information overload are out, clean looks, smart messaging and self-service terminals are in.

This need not mean the personal touch is removed, although some banks are now using robots to greet and serve clients, however members should be able to self-service via ATM's and terminals if time limited or queues are long.

3.2 SOCIAL CHANNELS

The explosion of social media; Facebook, Twitter, YouTube, LinkedIn, etc. in the last decade is a prime example of how technology influences consumer behaviour. We spend more time on social media than ever before and are more likely to share what we consume. This is especially true for younger segments of the market but applies to all, in Q4 2016 Nationwide Building Society, a pioneer in online engagement, had a remarkable 54k Facebook likes, 41k Twitter followers and over 14m YouTube views[1].

Social media no longer just promotes and differentiates brands, it plays an important growth role. Targeted campaigns can be run and enhanced by search algorithms which drive qualified consumers. Website activity can be monitored to see what content drives the most conversion, in-application purchases make conversion easy and immediate.

Not only is digital marketing more targeted than traditional methods it is also more adaptive. You can define where and when your content appears and set budgets. Real-time intelligence on effectiveness allow you to flex the message or adapt the campaign dynamically.

Whilst creating a social channel is easy there is a requirement to add relevant content

[1] https://thefinancialbrand.com/63159/power-100-2016-q4-credit-union-rankings

on a regular basis. Limiting negative impact, be it from disgruntled members or search engine penalisation may be required. Monetising the channel requires digital marketing skills to drive relevant traffic, which in turn must land on an optimised page with clear visuals, calls to action and copywritten text.

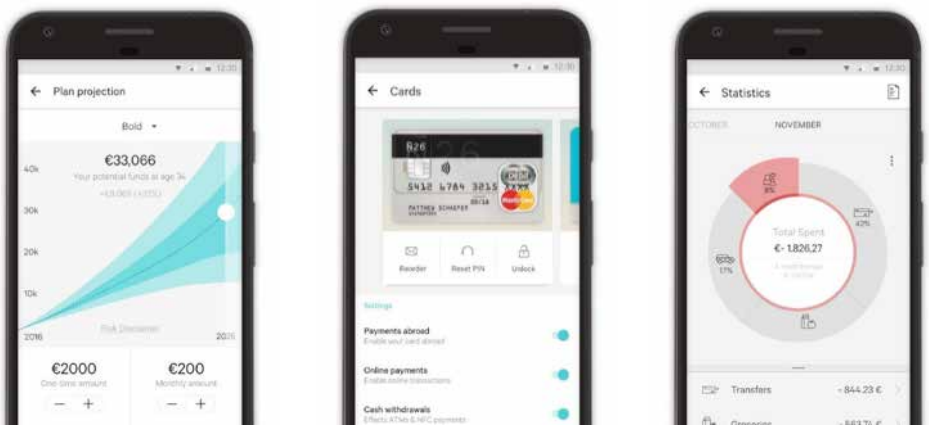
3.3 DIGITAL WALLETS

Digital wallets exist in many forms from a diverse range of providers. As in other areas of FinTech changes occur in how participants interact – often due to a need to achieve critical mass – thus Retail and IT born solutions have added payment capabilities.

The minimum viable product must be defined by member needs, if these are not met then adoption will be low and the economics marginal. Possibilities include a digital payment capability, either using Near Field Communication (NFC) technology or online for e-commerce and person-to-person. Given forthcoming changes to the availability of ATMs to Credit Union members a physical debit or credit card may be linked. Strong cyber security such as authentication and encryption is a given.

Whilst digital wallets are relatively new to Ireland they are mature in places such as Estonia and the US. In these markets evidence suggests members may require incentives to reach for their phone instead of a card - rewards for increased usage, contextual offers made in conjunction with local retailers, etc.

In order to broaden their appeal and diversify revenues, Credit Unions may also consider offering wealth, insurance and payments applications which help members manage their finances better, be they proprietary or third party via API.



3.4 INTERNET BANK

Creating the possibility to self-service is essential to provide members with anytime, anywhere convenience and ensure cost effective fulfilment. Internet banking modules are a simple and effective way to achieve this.

The minimum viable product must provide real-time relationship views across all products, detailed information on each transaction and an ability to create statements, open new deposit accounts, request new lending, etc. Optional extras may include the use of chatbots[2] for those members who require interaction and plugging-in third party solutions via API.

Internet banking is a tried and tested solution but not one which exists in isolation, to ensure consistent cross-channel user experience and accurate positions it will require integration to Core and CRM systems, preferably in real-time. If member onboarding and loan issuance are to be automated, essential for ensuring long-term competitiveness, integration to RegTech and credit scoring systems will also be required.

3.5 TARGET BENEFITS

MARKET REACH	REVENUE GROWTH	MEMBER LOYALTY	COST EFFICIENCY
Extend geographic reach, recruit younger members and offer additional services.	24/7/365 ability to meet member needs increases revenue, cross-selling ancillary solutions diversifies it.	Digital makes it easier to provide members with anytime, anywhere service and personalised offers.	Decision making is based on verified data and requirements rather than assumptions, management becomes more dynamic.

[2] http://thefinanser.com/2017/01/5-banking-tech-trends-2017.html/

04

MEMBER EXPERIENCE

MAKING IT EASY AND TRANSPARENT

Credit Unions have been voted the best provider of customer experience by Irish people for 2 year running[3], a remarkable achievement for any brand, especially in the post-financial crash environment. Only one other financial brand appears in the Top 100.

The success of Credit Unions is rightly attributed to their people, operating at a local level over many generations, building durable relationships with members in-keeping with our unique ethos. It easy to forget that the Credit Union ethos is enshrined in legislation, with section 6 of the Credit Union Act setting out the purposes for which a Credit Union is formed;

(a) the promotion of thrift among its members by the accumulation of their savings;

(b) the creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest;

(c) the use and control of members' savings for their mutual benefit;

(d) the training and education of its members in the wise use of money;

(e) the education of its members in their economic, social and cultural well-being as members of the community;

(f) the improvement of the well-being and spirit of the members' community; and

(g) the provision to its members of such additional services as are for their mutual benefit.

By remaining true to their founding ethos Credit Unions have made the lives of members, their families and communities better, providing support and independence through access to financial services, products and education.

Member experience of their Credit Union is rooted in respect and trust, FinTech provides an opportunity to take this to new levels. Recent studies suggest digital has the most immediate impact on improving customer experience[4], in advanced countries like Estonia biometrics, video technology and process automation mean you do not need to visit a branch any more.

[3] Customer Experience Insights

[4] https://thefinancialbrand.com/63654/banking-customer-experience-research-survey/

Automating repetitive tasks will free-up staff time to focus on direct relationships with members. This is a vital element in the evolution from a transaction to an advice based business model, and in the evolution of the role of counter teller to member advisor. This is not about sales push, but rather developing a deeper understanding of members and their financial circumstances to ensure the most appropriate solution can be provided, reinforcing trust.

A digital channel must be deployed, or upgraded where it is currently falling short of the high standards set by Credit Union staff and volunteers. Successful FinTech's such as TransferWise succeed by combining value, transparency and exceptional UX in the end-to-end customer journey. Credit Unions must strive to achieve this by ensuring onboarding, sales and service are made with the fewest steps possible, while still being prudent and fully compliant.

REBO BEHAVIOURS AND ATTITUDE SURVERY 2015

TOP 5 DESIRED IMPROVEMENTS	FINTECH SOLUTION
• App/Internet banking	• Digital channel
• ATM/Debit Card service	• Digital wallet with linked card
• Extended opening hours	• Digital channel works 24/7/365
• Increased range of services	• Plugged in to Digital channel via API
• Increased loan approval rates	• CRM and Credit Scoring

In some non-core business areas the entire value proposition may need to be rethought, such as in general insurance where members often receive quotes from their Credit Union which far exceed broker and online alternatives. This is not only inefficient; the member experience is contrary to the foundation of the hierarchy for trust – only provide me with products and services that deliver fair value to me.

FinTech can help solve this problem by ensuring competitive pricing, a clear understanding of the cover being bought and easy execution. The Solution Centre will develop proposals in this field in coming months.

Rapid developments in FinTech will soon open up new opportunities. Digital only Starling Bank already have a 'pulse' app which gives clients financial planning help and real-time alerts on spending, all for free. Financial statements will soon be provided in advance, robotics used to ensure real-time and cost efficient execution, app stores will allow users to select the services which best suit their need.

As the mainstream acceptance of Crowdfunding, P2P lending, prepaid cards, etc. demonstrate, FinTech has the ability to unleash new models and norms, if utilised alongside Credit Unions traditional strengths of trust and local knowledge this is a highly powerful combination.

A fatal error in customer experience projects is that they become too internal, focusing on sales and costs rather than customer factors such as convenience, responsiveness and trust.

In Paper 3 we will examine how to implement new KPI's for the digital age, such as net promotor score, member satisfaction, customer attribution, response times, etc. to ensure investment and service are effective.

4.1 TARGET BENEFITS

VALUE PROPOSITION	VALUES & IDENTITY	EXCEED EXPECTATIONS	PERSONAL TOUCH
All products offered by Credit Unions are competitive and offer excellent value to members.	Member experience at all times is based on the ethos that has served Credit Unions so well for so long.	Technology solutions will be best in breed and deliver service which exceeds member expectations.	Credit Unions will recognise the value of their staff and volunteers and free them to engage directly with members.

05

FULFILMENT

DOING MORE, FASTER AND BETTER

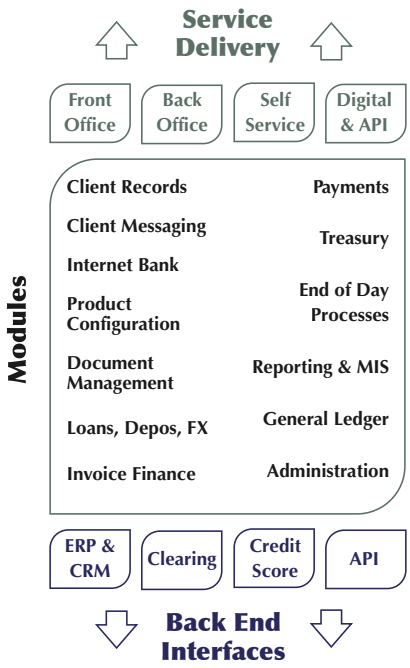
Fulfilment means the IT systems such as CRM, RegTech, credit scoring and Core which, when combined in a robust stack, provide the operational backbone of Credit Unions. Achieving the correct IT configuration is essential to ensuring excellent member experience, reducing operating costs and increasing business model agility.

Paper 3 will explore how these different elements can be combined to automate the entire process of onboarding, loan approval, fund disbursement and life cycle management, in this paper we focus on core systems which are mission critical and changing fast.

5.1 CORE SYSTEMS

As the name suggests, Core systems provide the key functionality required to run a Credit Union. They are comprised of many modules with client records and messaging, processing of loans and deposits, and reporting as standard.

Core systems are usually omnichannel, members can be serviced via branch, ATM and digital channels, employees in the front and back office have access to data in a segregated manner. Core systems typically have integrations with other systems such as CRM and clearing, in real or near time.

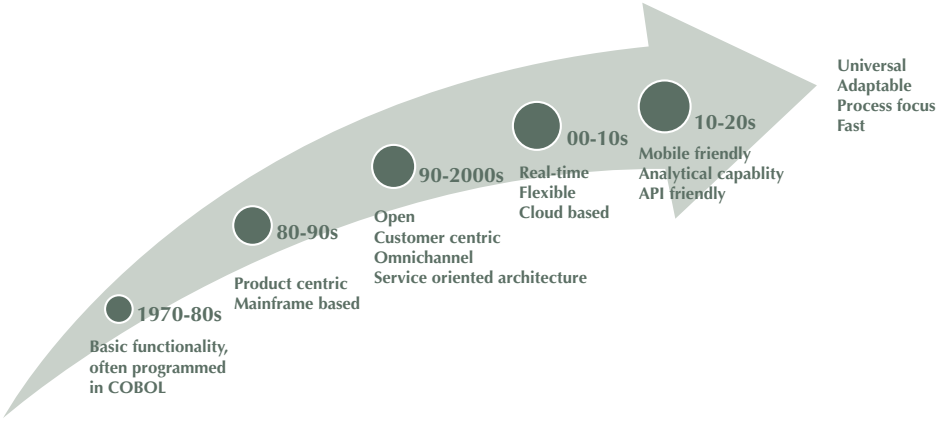


Client Records	Manage data, transactions and relationships in one place
Messaging	Send/receive messages 24/7/365 by email, SMS, letter
Internet Banking	Originate deals and allow clients to self service
Product Configuration	Centralised setting of features and prices
Document management	Integrate questionnaires, contracts, price lists, etc
Loans	Manage loan applications, servicing and NPL's
Deposits	Manage overnight and term deposits
FX	Manage cash and online deals, rates and currency pairs
Reporting & MIS	Dashboards and reports for management and regulator
General Ledger	Accounting at entity and Enterprise level. IFRS compliant
Administration	Define what users see and do, full audit trail

5.2 CORE SYSTEM EVOLUTION

Core systems have existed for decades and older versions continue to operate, often because providers cannot upgrade them due to technological constraints or because users are unwilling to take on the cost and disruption of replacement.

In recent years a new breed of solutions have emerged, so called 'digital core' systems, which are based on an entirely different logic, programming languages and financial proposition.



5.3 DIGITAL CORE

Digital core systems are fundamentally different on all levels and providing users with competitive advantages in client service, total cost of ownership and business model agility.

UNIVERSAL	Localise for each country or entity, standard format across Enterprise.
OMNICHANNEL	Deliver a consistent service across all channels 24/7/365.
CLIENT CENTRIC	All data related to a client, improving KYC and profitability analysis.
AGILE ARCHITECTURE	Customise to your need, scale quickly and adapt easily
OPEN ARCHITECTURE	Interface securely with other systems.
STP	Automate end-to-end processes to create efficiency.
REAL-TIME CLOUD ENABLED	Applications work simultaneously and in real-time. Managed cloud service, or install on your server.
MODULAR	Pay only for what you use.

The next phase of Core banking development will see Big Data analytics transform the mass of data within core systems into meaningful intelligence on client needs and business performance.

5.4 OPEN BANKING

The emergence of Open Banking – the use of open APIs that enable third party developers to build applications and services around a financial institution – is leading many to question what is the appropriate balance between core system and specialist solutions, and how they can best work together.

In practice the financial service provider would define the standards for the API platform (or layer) and let multiple vendors supply it. Customers would be free to select those solutions and services which suit them best from an app store. Over time business would migrate to the new architecture, allowing legacy infrastructure to be discontinued.

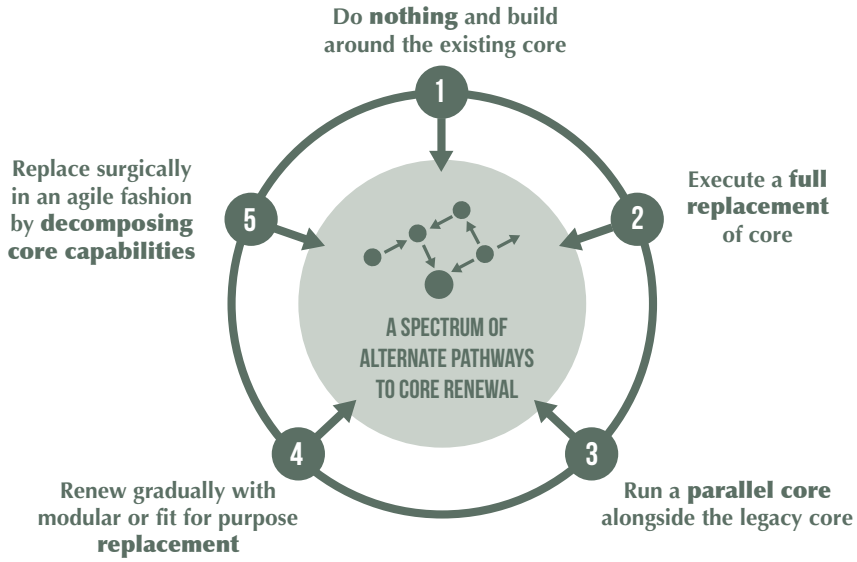
The allure is clear, done correctly Open Banking will create a win-win-win situation where financial service firms get more competitive and adaptive infrastructure, consumers greater choice; and technology providers a network effect by being part of the ecosystem.

Risks exist however, for example having multiple systems and channels creates more points for cyber-attacks. Reliance on 3rd parties increases counterparty risk, as the recent payments crash at Monzo, Revolut et al aptly demonstrated. The IT and business change required is significant as is the ongoing management effort.

As such the mainstream adoption of Open Banking may be 5-10yrs off, although elements of it are used today and for some PSD2 will force early adoption of APIs. Digital Core systems with API plug-ins in areas such as risk, mortgage servicing, analytics and digital front office[5] remain the go to system for challenger banks, for now.

Replacing a Core system is daunting, even with careful planning risks are involved, implementation and payback take time. New methodologies emerge in this field[6] including upgrading as you go or transitioning to new platforms in a progressive, modular manner.

This is explored in more detail in 7.5 however what is not in doubt is that persevering with inadequate or legacy infrastructure will not unlock the potential benefits available and damage competitiveness.



[5] http://www.bankingtech.com/570702/uk-challenger-banks-whos-who-and-whats-their-tech/

[6] http://www.ey.com/Publication/vwLUAssets/ey-surgically-replacing-core-banking_platforms/$File/ey-surgically-replacing-core-banking-platforms.pdf

5.5 TARGET BENEFITS

BOTTOM LINE	MEMBER EXPERIENCE	GOVERNANCE	CORPORATE AGILITY
Inefficient manual processes can be automated and both Opex and Capex reduced.	Members can self-service, certain processes and lending can be streamlined to ensure fast turnaround on requests.	Enterprise views in real-time improve management, automation reduces fraud an operational risk.	Digital core systems are customisable, open for API, have Cloud delivery and available on a SaaS pricing model.

06

REPORTING

HOW ALM SUPPORTS STRATEGY

ALM supports a vision where Credit Unions can value their Balance Sheets at any given moment, quantify financial risks, both current and future, and adapt their risk profile to stay in line with pre-approved limits.

The regulator, comforted by a robust framework of policy, process and technology, and now receiving risk reports daily (or calling on-demand via API), may review lending restrictions on Credit Unions meeting the higher standard.

Qualifying Credit Unions, free of one-size-fits-all regulation expand into mortgage, social housing and SME lending, thereby diversifying revenues, providently using member's savings and deposits and cementing their role as the community financial hub. Higher surpluses are returned to loyal members in dividends and reinvested to improve capabilities and services.

Such virtuous circles are possible as such FinTech to manage credit risk concentration; market risk from changing interest rates and liquidity risk arising from mismatches between short-term liabilities (deposits) and medium to long-term assets (loans) that will arise from diversified lending exist today.

Under the Treasury Management Shared Service Centre proposed by the Solution Centre, Credit Unions will see their financial risk profile in real-time. Market data feeds alongside analytics will provide detailed risk information in real or near time. Credit Unions will be enabled to dynamically adjust their asset and liability positions to stay within policy and run scenarios to ensure they are prepared for changes in portfolio and market dynamics.

The ability to properly value assets and liabilities also supports Balance Sheet management, future revenues could be securitised, loan portfolios bought and sold, long-term bonds issued to retail and institutional investors to term-out maturities.

Creating a single movement-wide data standard will create new opportunities in performance improvement through benchmarking and replicating best practice.

Fuller transparency to stakeholders occurs. Reports that make it easier to understand performance and risk can be created and delivered

automatically. Approved counterparties such as the regulator shall be able to call information in real-time using API, improving compliance and reducing the time and operation risk involved in current reporting.

FinTech will support the collection and interpretation of performance and risk data in a timely and efficient manner. When combined with an ALM policy defining risk parameters appropriate for each Credit Union and clear processes on how to react to risk it will unlock new possibilities in strategy and financial performance.

6.1 TARGET BENEFITS

PROCESS EFFICIENCY	BOTTOM LINE	GOVERNANCE	BUSINESS MODEL
Automating complex data collection, portfolio valuation, risk analysis and reporting creates time and cost savings.	**The ability to undertake more profitable lending activity and avoid unforeseen losses increases profitability.**	**Operating with real-time insights and pre-approved risk policies will improve management and build stakeholder trust.**	**Developing a risk capability unlocks new lending opportunities and the possibility to structure the Balance Sheet more appropriately.**

07

PRACTICALITIES

GETTING IT RIGHT

A practical approach to FinTech is essential, what is possible technologically may not be viable economically or appropriate for all stakeholders. Certain dilemmas and trade-offs inevitably arise:

7.1 CAN WE TRUST A MACHINE?

Carbon v Silicon is one of the great debates of our time and not one which will be resolved soon. There is no doubt that computers offer greater speed, consistency, auditability and cost efficiency than humans thus are well suited to tasks involving volume and repetition. Algorithms have been commonplace in trading for years and are now applied in Robo-advisory and loan life cycle automation.

Computers can also identify complex patterns and events which humans cannot. As data volumes explode and machine learning improves, so new opportunities will emerge in making personalised offers, identifying fraud and predicting credit defaults.

Prediction is one thing, judgement entirely another, and in this regard humans will always prevail[7]. This is especially important for Credit Unions dealing with personalised lending where one size does not fit all and risks excluding the most vulnerable segments of society.

As such Credit Unions should apply FinTech to those tasks which are best suited to automation, using tried and tested solutions from reliable suppliers, with the freed up resources deployed to serve members better.

7.2 CYBER SECURITY

Taking business online requires Credit Unions to upgrade their cyber security capability. The threat is real, in recent months we have seen the SWIFT global payment system and Tesco Bank have funds withdrawn fraudulently, passwords leaked[8], stolen data sold and experts declare 2016 the worst for financial cyberthreats since records began[9].

[7] https://hbr.org/2016/11/the-simple-economics-of-machine-intelligence

[8] www.finextra.com/newsarticle/30192/in-wake-of-cloudflare-bug-starling-advises-customers-to-change-passwords

[9] www.bankingtech.com/785222/financial-fraud-fools-uk-out-of-769m/?utm_source=rss&utm_medium=rss&utm_campaign=financial-fraud-fools-uk-out-of-769m

A range of risks exist which must be planned for, mitigated and managed on a proactive basis:

HACKERS	HUMAN FAILURE	IT
The range and sophistication of hackers continues to grow, not least as organised crime is often involved. Common examples include phising, malware, ransomware and denial of service.	Member and staff carelessness is likely to present a high risk of data leakage.	Increased data flow between different channels and systems potentially increases the chance of compromise.

With varying degrees of IT resource and competence available, and potentially significant fines and lost reputation for breaches, a cautious approach is merited. Credit Unions should deploy cyber security solutions including firewalls, intrusion detection systems, automated defence solutions, etc.[10]

Building in-house expertise may be difficult and expensive due to the shortage of experts and ever changing nature of threats, specialist advice may also be appropriate, but at a minimum Credit Unions must ensure cyber is a KPI of their senior level management and best practise guidelines from the Central Bank of Ireland [11] and others followed:

CORPORATE GOVERNANCE	Each Credit Union must possess a written strategy and framework to identify, manage and reduce cyber risks effectively and in an integrated manner. Cyber strategies should be tailored to the nature, size, complexity, risk profile and culture of the Credit Union.
IT GOVERNANCE	Within the IT function there must be oversight of the cyber strategy to ensure proper implementation and accountability. Cyber must be properly resourced to ensure proactivity in the ever changing, assymetric world.
RISK MANAGEMENT	Systematic monitoring across functions, activities, products and delivery channels must occur to identify weakness. This must include 3rd party suppliers. As with all good risk management there should be clear processes on how to react to events, communicate to stakeholders, disaster recovery, etc.
CYBER SECURITY	Credit Unions should use tried and tested solutions to detect and mitigate cyber risk, seeking best practise advice as appropriate. Regular staff training is essential as human carelessness remains a key contributory factor.
CYBER CULTURE	Cyber must receive senior level responsibility. On an operational level it is important to make training and awareness continuous to ensure effectiveness. Credit Unons may benefit from a movement wide approach and information sharing.

10 Please read *Cross Industry Guidance in respect of Information Technology and Cybersecurity Risks*, Central Bank of Ireland September 2016

11 https://www.centralbank.ie/news/article/cyber-risk-in-financial-firms-is-a-key-concern-central-bank-guidance

7.3 BUY OR BUILD?

Having committed to digital transformation a dilemma arises, to buy or build the solution?

No perfect answer exists. Building a system involves upfront Capex and ongoing Opex to maintain it, program new features as needs change, fix bugs, testing etc. Renting is cash flow friendly and allows Credit Unions to leverage the expertise of their supplier but can result in vendor lock and possibly not receiving a solution that exactly fits the requirement.

Given the varying degree of IT resource and competence available, the profile of Credit Unions is better suited to renting, using a SaaS model, IT cost is moved to a more variable basis plus there is greater adaptability.

Given the relative lack of competition between Credit Unions and their homogenous business models there is an opportunity to utilise movement-wide shared services, this is common in other jurisdictions.

7.4 GETTING THE RIGHT DEAL

FinTech requires skilled professionals to spend thousands of hours creating and perfecting code. It operates in a complex legal and regulatory environment which demands high performance. Ongoing costs for enhancements, cyber, hosting, etc. are involved. FinTech providers, therefore, have a legitimate claim that their solutions are high cost, indeed they may not achieve ROI on a solution or contract for some time.

Equally providers have a responsibility to ensure their offering is competitive and clients receive a fair deal, not least because Credit Unions have a wider array of solutions and vendors to choose from than ever before.

From an IT perspective it is reasonable for Credit Unions to request new features, market requirements are changing and the norm becomes open and real-time architecture. Credit Unions should not expect this for free - time and cost are involved. Equally the Credit Union should understand what is the TCO – for customisation, license and service over the life of the deal – in order to demonstrate ROI to their members.

The purchased solution, service level and respective responsibilities should always be clearly defined in contract. That contract should also contain a mechanism to have disputes and requests handled in a transparent process. If the solution is no longer appropriate, for whatever reason, Credit Unions should not be unfairly locked to the provider.

Credit Unions and their IT providers actually have aligned interests, if members are happy then transaction volumes grow, if Credit Unions are profitable investment occurs. Achieving such mutual benefits is possible if the relationship is transparent, trustworthy and long-term.

7.5 SMOOTH IMPLEMENTATION

Done correctly FinTech will deliver immediate and sustainable benefits, done incorrectly it can damage profitability and reputations. Here are tips to ensuring the former:

Unrealistic Expectations

People often mistake IT for innovation or believe it will cure all problems in their organisation. This understanding is wrong, IT is an enabler which must be aligned to the organisational strategy and user requirements to be fully effective.

Digital transformation should also be considered a journey as time will be required to adapt processes, behaviours and reap the full benefits. Upfront investment in new skills plus disruption may even result in lower performance until the project is stabilised. Best practise among leading companies is to optimise on a continuous basis.

New from Old

A cardinal sin is taking existing inferior processes and digitalising them. This may be tempting from a time perspective but sustains inefficiency. Credit Unions should take the opportunity to optimise processes, remove unnecessary steps, focus on exceptional member experience and improve back office efficiency.

Lack of User Input

It is essential to engage members about which digital services and features they desire and what they are willing to pay for them. Equally important is for a discrete number of members to test the 'beta' solution before its mainstream launch, allowing user experience to be optimised.

Do not overlook staff, it is essential they understand that Digital entails whole new methodologies, culture and processes. Sell the benefits, done properly FinTech will provide an energetic environment and more meaningful work. Ensure training is provided throughout the period it takes to adopt new technology.

Life Cycle Management

No IT project should start without a systematic review of the value proposition – to whom are we providing service and how, what are we providing, what skills, processes and systems are required to deliver this, what are the economics, etc.

This effort requires time however such considerations will help clarify what is optimal for member and business needs. Proper scoping will also make it easier for IT providers to understand, identify gaps and provide realistic offers.

Make sure the requirement is properly defined in terms of tasks, processes, technology, budget and timeline. Make sure there is a consideration about the future given you will need to flex to changing member requirements, technological and regulatory factors. Honestly assess your organisational

ability to deliver this. If there are doubts either clarify or seek a solution early rather than mid-project.

Having shortlisted potential providers seek quotes from a small number, alternative views will broaden your thinking and create price tension. Approaching a single provider is not uncommon, however, the contract must make provisions for compensation and switching if that provider then fails to deliver.

Documenting the project again requires time but ensures a proper audit trail exists during the preparation, implementation and live phases, essential to ensure smooth operations and good governance.

For large transactions it may be appropriate to hire consultants to provide expertise and resources during part or all of the process.

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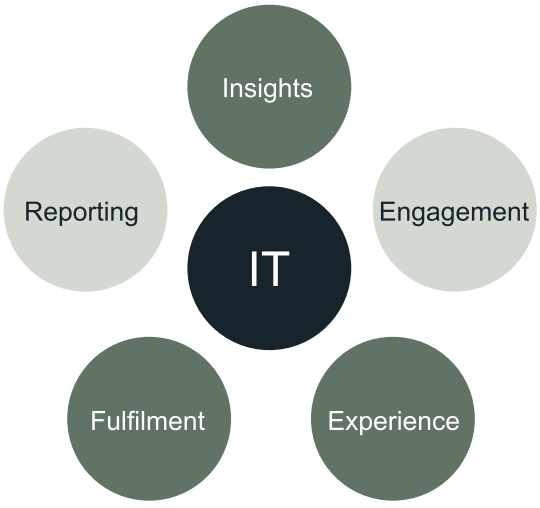
CONCLUSION

KEEP CALM AND FOCUS ON MEMBERS

Using outdated banking technology makes it hard for some financial institutions to make strides forward when it comes to providing their customers with faster, more advanced banking services. In order for a financial institution to be successful when it comes to core renewal, it needs to look holistically at business capabilities, rather than just the technology itself.

In our dynamic banking environment, 'tweaking' or modernisation is not always the right answer. Core banking system renewal must move credit unions toward a more vertical architecture that provides a modular approach to progressively enable the credit union to deliver fit-for-purpose business capabilities; a set of services that support these capabilities; and a significant uplift to speed, efficiency and data delivery. The ultimate target should be establishing a list of required capabilities and determining a mix of current systems and new modular banking technology to reach this target state in the most effective way possible.

This approach correlates with the strategy employed by the Solution Centre in all areas of business model development, focusing on 5 core principles built on IT enablement;



"FEWER PEOPLE ARE USING BRANCHES. MORE THAN 90% OF OUR INTERACTIONS WITH CUSTOMERS ARE NOW THROUGH OUR DIGITAL CHANNELS - AN INCREASE FROM 80% LAST YEAR"

HSBC, 2017