Digital Transformation Goes Beyond Just the Technology

Financial institutions must also change their culture, organization and approach to budgeting

ORIGENCE®

According to *Harvard Business Review*, of the $1.3 trillion that was spent on digital transformation in 2018, about $900 billion went to waste. No wonder the publication's survey also found that digital transformation was the top risk concern for directors, CEOs and senior executives.

Why do so many digital transformations fail? Because digital technologies provide only the potential to increase efficiencies and improve the customer experience. However, as the HBR article pointed out, if an organization lacks the right structure and culture, digital transformation will not only fail, it will magnify those flaws.

The success of your credit union depends upon your ability to do business with your members using the channel they prefer. With each year, those preferred channels are digital. That means when it comes to credit union digital transformation, failure is not an option.

Changing an organization's structure is no easy task. In fact, it's more difficult than converting to a new technology system or expanding into a new market. That's because it's not the tools or members that are changing … it's ourselves.

The kind of culture change that must occur to facilitate a successful digital transformation requires rethinking job responsibilities, workflow, team building, project management, and in some cases, an attitude adjustment by staff and executive management.

There is no magic formula or easily duplicated model to follow. Each credit union is different and must build a new culture that is as unique as its field of membership.

However, there is plenty to learn from other credit unions that have faced the same challenge and created cultural and organizational shifts that have enabled successful digital transformations.

Origence spoke with three credit unions that have successfully executed digital transformation and are already experiencing growth as a result. As is the case with credit unions, each cooperative represents different asset classes, serve different fields of membership and have unique legacies. And, they each focused on different mixes of technology to create customized member experiences that meet the needs of their unique markets.

What they didn't do was let technology drive the future of their cooperatives. Instead, they used an opposite approach, first envisioning the credit union's future and then making sure the people and processes fully supported that vision. That vision then drove which technology was used to transform the credit union.

These successful credit unions view culture, organization and budgeting mindset as the three most important changes that need to take place to achieve digital transformation.

We'll be looking closer at the approaches and strategies taken by these credit unions to execute their digital transformation initiatives

TEXAS TECH FEDERAL CREDIT UNION

Lubbock, TX
$203 million
23,500 members

Texas Tech FCU has developed a reputation as one of the most successful small to mid-sized technology-driven credit unions in the entire movement. As its name suggests, the credit union's legacy SEG is Texas Tech University. The credit union has expanded its field of membership to include SEGs primarily in the education and medical fields.

Interesting fact that helped facilitate digital transformation:

Texas Tech FCU has experienced a complete turnover of its executive team in the last six years, with the exception of its CEO. As a result, the executive team is dominated by millennials and Gen Xers.

WSECU

Olympia, WA
$3.3 billion
281,000 members

WSECU was chartered in 1957 by employees of the state of Washington, eventually expanding its field of membership to serve the entire state of Washington in 2013. WSECU is known for its investment in the local communities it serves, reinvesting 4% of its annual profits into community programs that benefit its members.

Interesting fact that helped facilitate digital transformation:

WSECU is no stranger to innovation. The credit union is also known for its innovative CUSO, QCash Financial, a small-dollar loan program; and its award winning digital loan application.

ALLIANT CREDIT UNION

Chicago, IL
$12 billion
500,000 members

Alliant Credit Union began as the credit union for employees of United Airlines. The credit union expanded to serve other SEGs that share a common bond of providing technology or employing professionals who use technology as one of their primary skill sets.

Interesting fact that helped facilitate digital transformation:

Alternative ways to bank is part of Alliant's DNA – the credit union has always been cashless.

CULTURAL SHIFT

A successful digital transformation requires a culture change that goes far beyond the use of paper. It requires a shift in employee behavior, management style and the elimination of office politics – especially at the senior manager level – that prevent divisions from working together to launch and maintain new technology and systems.

But a major culture change at a credit union isn't easy. Jim Marous, co-publisher of *The Financial Brand*, summed up the dilemma faced by credit union leaders when he asked in a July 2019 article, "how can a credit union become more responsive to the digital opportunities in the marketplace without alienating current employees or negatively impacting what has made the organization successful in the past?"

Because so many credit union leaders have been in the movement for so long, Marous continued, "this is the way we do things," is hard to change, and disruption isn't rewarded in many organizations.

Origence VP of Innovation & Insights Brian Hamilton, also pointed out that credit unions sometimes tend to overestimate the effectiveness of the traditional ways they have always done business. For example, branches located onsite at large SEG locations have a unique competitive advantage for member engagement. In some instances, however, that personal relationship may be problematic. For instance, if a member needs a debt consolidation loan, they may prefer to shop anonymously online and then fulfil the loan digitally to avoid the potential embarrassment of working with someone they see every day.

The structure of the modern workplace has changed significantly over the past several decades, and as a result, so has the way credit unions have served members. Before the NCUA updated its field of membership policy in 1981 to include multiple select employee groups, most credit unions served individual legacy SEGs with onsite employer-hosted branches. The definition of "worker" has changed since that time. According to Filene Research Institute's report "The Credit Union of the 21st Century," nearly all (94%) net employment growth between 2005 and 2015 was in the form of freelance, contract, on-call or temporary agency workers. Fifty percent of so-called "1099" workers do not have access to the benefits that W-4 workers expect as part of their compensation—benefits like retirement and paid leave and insurance. As the number of freelance and independent workers continues to rise, it makes sense that more credit unions are carefully considering a shift from an employer-centric branch-based strategy to a member-centric digital-first strategy that is both personalized and portable for members subject to shifts in employment.

Without digital channels, freelance workers may not be aware they qualify to join a credit union. Without digital channels, it may not be possible for those workers to engage with their credit union. Furthermore, ethnographic research with credit union members reveals that they want to do business with organizations that treat them with respect. "We hear repeatedly from members that they'd rather have a chat on a couch with a financial advisor than sit across a desk with someone in a suit and tie who they

> "Why does digital transformation matter? Ultimately, digital transformation is about meeting members where they're at—giving them the tools to do their financial chores when and how they want to do them, and then reach out on their own terms when they want higher-touch engagement. Technology is a platform for service, not a replacement for it."
>
> **— Taylor Nelms, Senior Director of Research, Filene and co-author of the 21st Century report**

perceive to be a judge," summed up Erin Coleman, Senior Director of Advisory Services at Filene.

As noted in the 21st Century report, "An industry that was birthed in the traditional go-to-the-office model—or go to the plant or go to the base … is going to be very outmoded in a 1099 world."

THE 4 DIGITAL CULTURE VALUES

MIT Sloan Management Review, in its Summer 2019 issue, defined four key values of a strong digital culture: impact, speed, openness and autonomy. Too often, leaders focus on impact and the need for radical, disruptive change. However, speed, openness and autonomy are also required to compete in today's digital marketplace.

Achieving these qualities can be more difficult in a credit union than at a fintech because of compliance requirements and reputation risk that comes with data breaches or a failure to protect consumers. The NCUA continues to ask Congress for authority over third party vendors; in particular, those that provide financial technology. In October 2019. A discussion draft for legislation to grant third-party oversight to the NCUA was introduced, known as the Bank Service Company Act. Should the NCUA gain this supervisory authority, it could adversely affect a credit union's ability to develop a culture of speed, openness and autonomy when it comes to digital transformation.

However, openness in the form of transparency is something credit unions can achieve in a way that boosts member satisfaction and brand loyalty, according to the Filene report, "Member Experience and Service Excellence, Part 1: Member Compatibility and Operational Transparency," authored by Dennis Campbell, the Dwight P. Robinson, Jr. Professor of Business Administration at Harvard Business School. Campbell is the Fellow of Filene's Center for Organizational Entrepreneurship and serves as a director on the board of Harvard University Employees Credit Union.

When self-service technology like mobile and other digital channels separate the member from credit union staff, it commodifies service, Campbell explained, which is where credit unions have long differentiated themselves. However, credit unions can re-engage members by investing in the kind of digital transformation that aligns with the needs of their particular memberships and by showing them the work that is being done on their behalf, behind the scenes.

"It might seem like delivering a great experience to members should both be and appear effortless, but consumers report greater satisfaction and higher brand loyalty when they can see the work that goes into making them happy. Transparency can increase trust in an institution and encourage people to be more patient when there are delays in service," Campbell wrote.

What does transparency look like at a credit union? Campbell pointed to the ability to track UPS, FedEx or USPS shipments with daily or more frequent updates. Domino's "pizza tracker" also raised consumer expectations for transparency in the preparation and delivery of products and services. This concept could be applied to the lending process, whereby credit unions continuously update members on the status of their auto or mortgage loan. In some loan origination systems, such as Origence's consumer LOS, this tracker process can be automated.

FIGHTING FEAR

Fear holds many people back from embracing digital transformation, both inside the credit union and among members, observed Michelle Spellerberg, VP of Digital Strategy and Innovative Growth at Alliant Credit Union. After executing a detailed five-year transition plan, Alliant went fully digital in the third quarter of 2018. The credit union maintains only one public branch located in its corporate headquarters and 92% of its members have adopted digital channels to access their accounts and open new ones.

In the beginning of Alliant's digital transformation, its technology team was quick to embrace the effort, but the rest of the organization required a significant mindset shift. First on the list was to clearly communicate the strategy and what it would mean for employees. Alliant put a lot of effort into internal communication, Spellerberg said, sharing how each new project would affect employees and keeping them updated on progress.

"It's important to have staff on board," she said. "Especially those who have spent their entire career at the credit union. They need to see the value in it."

Paul Kirkbride, Chief Operating Officer at WSECU, said his credit union leaned heavily on its strong culture when beginning its digital transformation. Any large business transformation effort is basically a change management effort, he observed, "but changing how we do business doesn't mean we have to change who we are."

He also addressed the fear factor, saying, "the moment you start talking about centralizing work, like we did with our agile cross-functional teams, it can feel like a loss of control for some leaders."

WSECU invested heavily into addressing the emotional components of change, providing formal change management training to leaders, including the senior management team, along with some back office staff. Ultimately, the rest of the credit union's employees will undergo the same training over time.

"We recognized that we will have to work differently and the old silos from the past might be the reason we didn't get things done before," he recalled. "But giving up control isn't easy for people."

A July 2019 article in *The Wall Street Journal* also advised organizations to refresh their core values to embed desirable behaviors in management and staff, such as cross-functional collaboration, continual learning conducive to digital transformation, and performance metrics and incentive structures that are aligned with digital culture goals.

ORGANIZATION AND CULTURAL CHANGE

In many cases, organizations must undergo an organizational change, along with a cultural change, to prepare for digital transformation.

Maarten Wensveen, CTO at customized goods provider Cimpress and member of the Forbes Technology Council, observed in a September 2019 Forbes article that it's common for companies to attempt digital transformation without understanding that it requires changes to organizational structures and decision-making processes.

He cited the adage Conway's Law, a theory that companies create products and services that mirror their organizational charts and communication structures. Traditional, hierarchical organizations separate their product development teams from customers with thick layers of project managers, financial analysts, and unnecessary levels in organizational structures. The result is an overly complicated and opaque customer experience.

Hierarchical organizations also tend to have long product development and innovation cycles, Wensveen added. As a result, they get beaten to market by more nimble competitors. Or, even worse, by the time their needs are addressed, customers have already moved on to different needs and the effort was wasted.

> "The largest barriers credit unions face to becoming agile are organizational structures built upon silos, and the lack of dedicated cross-functional teams committed to certain member and staff experiences."
>
> **— Paul Kirkbride, Chief Operating Officer, WSECU**

THE NEED FOR SPEED

"The member service silo, the lending silo, the IT silo – each has its own projects and fights for resources across the company all at the same time, usually," he said. "These efforts need to be more coordinated and concentrated, to ensure the highest priority items – from the company's perspective – are getting properly resourced."

Realizing the credit union's silo structure was holding it back was an epiphany regarding the need to change how it classified and owned work, Kirkbride recalled. However, rather than reorganize the credit union, WSECU instead created four cross functional teams that work within the traditional credit union structure. These teams, which include eight to sixteen people, don't own products but rather, focus on a member process or mode. The four teams include utilization, assistance, awareness and acquisition and are together in perpetuity.

"Traditionally, when you complete a project, each project team disbands and each person goes back to their home department. However, most of the things we build nowadays need ongoing attention and innovation. We can no longer rely on ad-hoc technology teams; we need ongoing collaboration. That means you need permanent project teams, who stay together and can continue to improve a system or a process."

The team members are loaned from each division and include a subject matter expert (product owner), user experience experts, developers, quality assurance employees, and scrum masters. The credit union uses Azure DevOps for its project management software, which makes all teams and their project work transparent, and allows for suggestions from anyone in the credit union to reduce friction or address backlogs.

These teams currently work in two-week development cycles, called sprints. During a sprint, the team pulls in work from their backlog, designs it, codes it, and tests it all in that two week window.

In terms of user experience, it helped that the credit union had already created a member experience department, referred to as the MX Team, headed by a VP of Member Experience. The MX Team, which has a representative on each cross-functional team, is in charge of a "voice of the member" platform. The platform collects and reports data from member surveys and unsolicited member feedback, keeping an eye on any friction in the member journey.

"They help inform our developers how to design apps and systems for the end user, whether that is a member or staff or both, so it doesn't come back in six months needing to be fixed," Kirkbride said.

FROM REACTIVE TO PROACTIVE

When it came to reorganization to support digital transformation, Alliant leaned on the experience of its tech-savvy board members to help drive organizational change, including board members with experience at Google, United Airlines, Great Wolf Resorts and McDonalds among others.

Spellerberg joined Alliant six years ago to take over all digital channels and help lead the credit union's transformation.

> "Everybody thinks of digital transformation as projects that begin and end, but it needs to become living, breathing organisms that you have to feed and care for after they're born," she said. "A project is never done. Digital is never done. Knowing the team will always have to be there, that was an 'aha moment' for us, transformation from reactive to proactive."
>
> **— Michelle Spellerberg, VP of Digital Strategy and Innovative Growth, Alliant Credit Union**

Like at WSECU, Alliant's largest organizational shift was to take technology projects out of the IT silo and move them to be managed by product owners. Within Spellerberg's digital division, product owners handle delivery channels (remember, 92% of Alliant's members use digital channels exclusively) and each product owner first works internally with multiple departments, including member experience, to map out backlogs and write requirements. They then work with IT development teams to implement and test new technology, make upgrades and necessary fixes.

Not only do product owners map out backlogs, they are also in charge of enterprise, ongoing projects, making sure both large and small upgrades and improvements are kept up to date and work in multiple delivery channels.

SMALL IS ALSO NIMBLE

Because of Texas Tech FCU's comparatively small size, silos weren't as big of a hurdle because the entire organization has fewer than 100 employees. The credit union didn't have to form a lot of committees like larger institutions, said Lisa Huertas, Chief eXperience Officer.

The credit union's size allowed it to be more nimble and transform the entire organization, from its logo to its operational workflow, in just three years.

"All the stakeholders are close to each other, which helped unify our vision and execute it," she said. Huertas also credited the credit union's board for also believing in a digital vision and allowing the executive team to make the necessary investments and changes needed to make it successful.

One visionary investment was the hiring of three full-time data analysts, which make up the credit union's business intelligence department.

"Most credit unions our size don't have a business intelligence team," Huertas acknowledged. "But we are so happy we made a big investment in BI because they bring all of our data points together."

Data analytics have helped the credit union make "smart key decisions as we begin to fully understand member behavior," she explained.

> "Whether your technology is in house or outsourced, data points are so critical to understand the credit union's 360-degree view. It's one of the most critical investments you can make. First you have to bring it all together, then you can innovate from there."
>
> **— Lisa Huertas, Chief eXperience Officer, Texas Tech Federal Credit Union.**

Texas Tech FCU also has an applications team that serves a similar function to WSECU's MX Group. The team is made up of three full time employees (FTEs) who are responsible for all applications from the core processing system to video banking. They focus on the internal, back office functioning and processes of each app, and work together with a business owner from the executive team who focuses on each app's member-facing strategy.

"They represent 360-degree views so we don't get one-sided," she said. "You have to represent both because back office employees tend to be very efficiency-driven, while front office people are very member experience driven."

BUDGETING MINDSET

Radical digital transformation isn't cheap. Texas Tech's financial performance reports according to NCUA confirm that the credit union's net operating expense to average assets ratio was 6.26% as of December 31, 2019, compared to an average of 2.97% for its peers. However, the credit union's superior member experience is paying off: as year-end 2019, the credit union's net margin to average assets was 8.47%, compared to 4.83% for peers.

The end result is a return on average assets of 0.91% as of December 31, higher than the peer average of 0.78%.

"We made a commitment to digital transformation and knew the first few years would require a huge investment in technology and staff, but after that we would hold steady on expenses while continuing to grow. We made investments early on in areas, like our ITM's, mobile and video strategy and our business intelligence team, where larger financial institutions would have waited until they reached a certain size to justify that expense," Huertas said. "But now, we are in a position to grow members and assets with our existing staff."

What gave the credit union the courage to make the budgeting leap?

"We wanted to be here five years from now," Huertas stated bluntly. "When we started on this journey, we were just over $100 million in assets. We doubled that in three years, and I believe it's because of the critical investments we made that are allowing us to continue to grow at a quick pace. We are now in a position to scale our business, and compete by providing services people expect, equal to Amazon standards or even better."

That allows Texas Tech to compete effectively for its consumer market, which is short on free time and demands digital channel convenience. Huertas also noted that this has helped the credit union better compete for quality talent.

THE POWER OF COLLABORATION

Credit unions have increasingly accepted that they need to create and maintain relationships with fintechs. But, they must also be prepared to enter into those relationship with caution, considering the value propositions, evolving marketplace strategies, and business lines that fintechs want to involve themselves in, Filene's Coleman said.

In its report, "Weighing the Risks of a Fintech Partnership," Filene encourages credit unions to collaborate with fintechs. Indeed, the collaborative nature of credit unions is one of the system's key strategic differentiators, and advances in data sharing, social media and online tools should be creating more opportunities for collaboration.

CUSOs provide one important structure for credit unions to pool their resources and talent, Filene notes, allowing them to develop and offer fintech solutions they couldn't procure on their own. The CUSO structure also allows them to retain ownership of the technology, thereby "owning the code" as Kirkbride recommended.

Likewise, credit unions can also minimize the risk of fintech partnerships by collaborating with other credit unions that share the same challenges, goals and membership demographics to share employees, risk modeling, and operational structures, even collectively vetting a potential fintech vendor. Large system partners like CUNA Mutual Group, CU Ledger, and Filene's Incubator program can also help credit unions navigate the fintech vetting process.

Large credit unions like Alliant and WSECU have the asset size to develop their own proprietary technology, but even members of the billion-dollar club partner with fintechs to fill in the gaps in expertise and staffing, and ensure continuity between front and back office functions.

Alliant developed its own mobile app, Spellerberg said, but partnered with a mobile app expert to create a project team comprised of mobile expertise and credit union employees.

"Our internal team created all APIs on the back-end and we partnered with a firm to help with front end," she recalled. "You have to find the right partners – nobody knows it all."

However, she echoed Filene's warnings about making careful technology partner choices.

"It can't just be any tech partner," Spellerberg advised. "Sometimes you have to walk away from the wrong ones."

WSECU also sees value in vendor partnerships.

"Credit unions must own their front ends to some extent, but they still need partners behind the scenes to aggregate business and develop technology the credit union can't afford. Open APIs, like those offered by Origence, are crucial," Kirkbride said.

"We like that Origence has open platforms that allow credit unions to have their own front end, while still relying on a good partner for the back-end needs ," he noted. "That's how you build flexible, yet scalable solutions."

HORIZONS OF INNOVATION

According to Origence's Hamilton, credit unions that commit to digital transformation can be willing to spend money, but aren't as confident that they are effectively judging the magnitude of change that will occur in the short-term, while keeping an eye on long-term trends. Allocating significant resources to achieving massive transformation as quickly as possible won't be worth the resources if friction in the existing member service experience remains.

Resources allocated for digital transformation can be organized and planned according to innovation horizons, which are divided into three tiers or timeframes that range from 12 months out to 36 months or more.

HORIZON 1 (within the next 12 months)
This tier is, by far, the most important for financial institutions, and should take up 60% of a credit union's innovation budget. It involves change that needs to occur in the short term, and focuses on markets already served using current technology. Credit unions should be looking at improving existing technology, improving efficiencies and processes, reducing costs and using the system to its full potential. Think of the example of Texas Tech FCU's BI department – the investment in a data team focused on measuring and analyzing existing member behavior.

HORIZON 2 (within in the next 12-36 months)
The mid-tier should take up 30% of the budget and involves next generation technology that is already proven and/or expansion into adjacent markets. These are moves a credit union must make in the next one to three years. Alliant Credit Union executed this horizon well, moving its cashless transactions and remote access channels – proven strategies for its membership – into a totally digital experience.

HORIZON 3 (beyond 36 months out)
Although this tier typically garners the most attention, it should only require 10% of a credit union's budget. It includes concept technology that isn't yet proven and entirely new markets. While the material impact of horizon three innovation may be more than three years out, these initiatives should not be neglected. The solutions CU Ledger is developing with blockchain applications is a significant form of horizon three innovation.

CONCLUSION

The Credit Union of the 21st Century from Filene, further identified key technology trends that will require credit unions to adopt a digital-first culture, including access on the go, voice and video, data and payments. However, these tech tools can also be thoughtfully deployed to support the traditional credit union philosophy of cooperation and people helping people.

Access on the go will force credit unions to rethink their branch network's role and strategy as members increasingly demand a seamless experience with an interface that is easy to use and accessible anytime, anywhere. Voice and video can help maintain the credit union value proposition of personalized service by acting as bridges between in-person branch experiences and digital experiences that lack face-to-face human interaction. Voice and video also give credit unions new opportunities to communicate their mission and values.

These technology trends, combined with socioeconomic trends like rising income volatility and wealth inequality, credit union movement consolidation and the rise of the gig economy, require credit unions to not just embrace digital transformation but also reinvent themselves. That reinvention must begin with culture, organizational structure and a new method of resource allocation for an ever-changing future.

Digital transformation is so much more than eliminating paper from your credit union or digitizing loan applications. It requires an enterprise-wide commitment to change that goes beyond digital channels to embrace modern workplace cultures, organizational structures and a new approach to resource allocation. ■

We'd like to graciously thank WSECU, Alliant Credit Union, Texas Tech Federal Credit Union, and Filene Research Institute for their participation and assistance in the development of this paper.

ABOUT ORIGENCE

Origence delivers the ultimate origination experience. For 25 years, we've helped lenders increase loan volume and income, create efficiencies, and fuel growth through our automotive, lending and strategic solutions. Today, our next generation technology solutions and services span across indirect lending, mortgage and consumer loan origination, digital retail, analytics, marketing and CRM, auto shopping, vehicle service programs and identity theft solutions, advisory services, and outsourced loan processing. We help financial institutions optimize the customer experience, leveraging integrated solutions to bring efficiency, productivity, and profitability to lenders.

For more information:
info@origence.com

18400 Von Karman Ave., Ste. 900
Irvine, CA 92612

1 (833) 908-0121