DaLand

A NEXT GENERATION CUSO

White Paper

What Your Credit Union Is Probably Getting Wrong About Digital Transformation

There's been plenty of talk

in the past year or two about the need for "digital transformation" in financial institutions of all sizes. The signs are clear. For example, Bank of America now receives more deposits through its mobile app than through its entire branch network.

In its Accelerating Digital Transformation in Banking study, Deloitte surveyed more than 17,000 retail banking customers worldwide. While the research showed that U.S. consumers are generally satisfied with their financial institutions (76%), it did reveal some interesting insights. For example, when Deloitte looked at six different measurements of "emotional connection," what the survey called digital adventurers experienced the greatest emotional connection in each measurement, while traditionalists were consistently the least connected. In other words, a stronger digital experience translates to a stronger positive emotional response from the consumer.

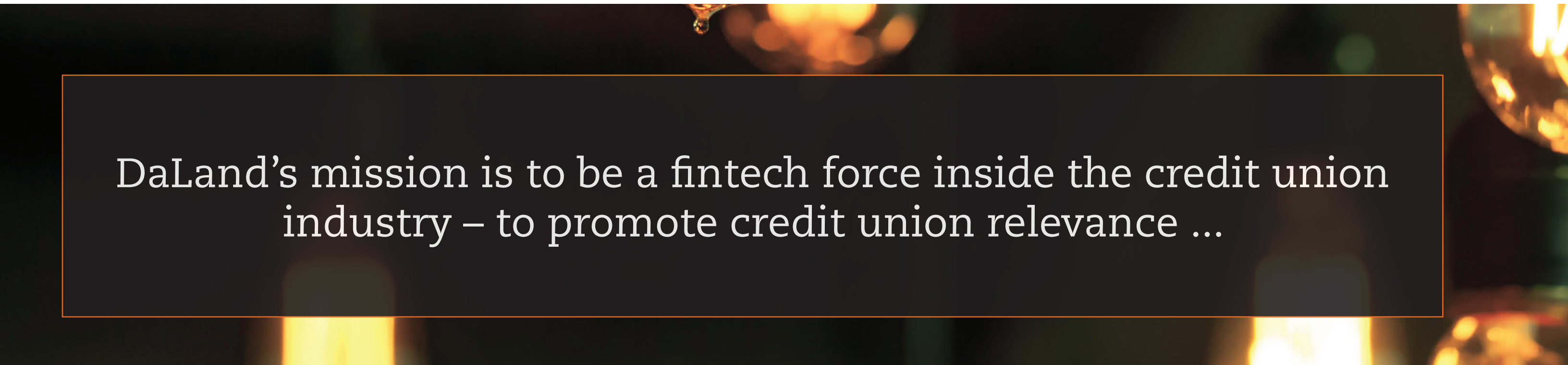
What's more, EY's Global Consumer Banking Relevance survey showed that 40% of retail banking customers expressed decreased reliance on their primary financial institutions, instead opting for various non-traditional financial providers in varying degrees. If this trend continues – and there's no sign it won't – the struggle for credit unions to remain relevant will continue to grow at an increasing rate.

The warning signs are all there. And while it's virtually unanimous among industry experts that digital transformation is necessary for survival, the exact definition of digital transformation is still open to debate. Unfortunately, there's a common misconception that digital transformation is just a matter of investing more in mobile technology and tacking on some new products to an FI's existing products. Of course, most vendors are happy to support this definition, because it means they can sell FIs more products.

This is unequivocally not the DaLand definition of digital transformation.

The path towards relevant and profitable digital transformation begins with the understanding that IT (Information Technology) has traditionally been one of many operational silos at a credit union. What's more, IT is often considered a support department, i.e., IT keeps the computers running so that everyone else at the credit union can do their jobs. IT is not typically viewed as a necessary constituent of a credit union's core business and operational strategy.

Digital and operational relevance as defined by DaLand reshuffles your



DaLand's mission is to be a fintech force inside the credit union industry – to promote credit union relevance ...

Digital and operational relevance as defined by DaLand reshuffles your whole deck and gives you a complete hand to play for your business in today's digital world.

whole deck and gives you a complete hand to play for your business in today's digital world. DaLand is committed to educating credit unions regarding how to structure operational and business strategies based on the understanding that IT/technology is the starting point of the entire credit union's operational delivery to members.

To illustrate this idea, consider the contrast between Toy R Us and Amazon. Just a few years ago, it was unthinkable that "the world's biggest toy store" would be completely out of business. In 2014, Toys R Us posted revenue of more than \$12B. By 2016, that number was cut in half. In 2018, the brand disappeared completely. What led to its demise?

Toys R Us thought that it could accommodate (remain relevant in) the digital age by adding a website and online ordering to its existing operation. They were just the latest of many retailers to attempt a "digital transformation" by simply layering platforms on top of their internal point of sale system (uncannily, or perhaps uncomfortably similar to how most credit unions simply try to layer digital platforms on top of their teller line platform). As a result, Toys R Us simply became a big toy store with a mediocre online experience. There was little if any adjustment to the dated operational methods the company clung to for decades. This miscalculation proved fatal.

Contrast this with Amazon. For its first four years, the company only sold books. However, simply characterizing Amazon as an online bookstore is decidedly wrong. From its very inception, Amazon was a technology company – a collector of data and a dealer of digital experiences. Sure, it started out as a technology company that sold books, but it was still first and foremost a technology company interested in collecting data and driving digital consumer experiences using that data as the core of its business.

It's this focus on control of data, deliberate and consistent digital delivery, and a technology-first approach to consumer experiences that has allowed Amazon to grow to a \$200 billion company. The company is successful because it leverages technology – including all of the data it has available to extend to its consumers – to create a superior customer experience. Most of the products that Amazon sells can be purchased at physical storefronts, as well as on other websites. Yet, chances are you'll choose Amazon because it offers a superior buyer experience, which is driven entirely by technology and enhanced by unparalleled use of data collected around your core consumer profile. They use your data as the core of their business model to drive profitability and enhance your experience. And, you keep coming back.

Your credit union can do the same thing for its members – if it has a capable technological core and a truly relevant core business strategy and, more importantly, if your management team has an understanding and a map to see there is no difference between the business strategy and your core operational/technology delivery strategy in the modern digital world.

Industry after industry has hopped onboard the Amazon train to prosperity and sustainability. Frighteningly, virtually all credit unions are still on the Toys R Us train to oblivion.

DaLand's mission is to be a fintech force inside the credit union industry – to promote credit union relevance by being an intentional industry disruptor committed to safeguarding the strategies of credit unions interested in exiting the doomed "Toys R Us little engine that can't" in favor of boarding the "Amazon Express."

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To this end, DaLand has adopted what it calls a core-centric approach to credit union business strategy, risk management, and technology relevance. DaLand's core-centric approach is encapsulated in two major points:

- Credit unions need to be running on what DaLand calls relevant core systems, the primary components of which are:
    1. The ability to amass a powerful and highly extensible/expandable data center of gravity for your credit union, and
    2. Modern, open, fully extensible business logic that can be extended directly to the digital channels your members demand and expect.
- Credit unions needs to shun the platform creep that has become so pervasive in the credit union space. Currently, everything is a platform. A credit union is likely to have an online banking platform, a mobile platform, a BI platform, an LOS platform, a collections platform, an accounting platform – the list seems endless. And with each platform comes another data silo, another invoice, more vendor risk, more overhead, more operational demand, etc., making data harder and harder to manage and actually use to improve the member experience.

Credit unions that embrace these two points and couple them with a technology-driven understanding of their entire operation will be the ones that enjoy true digital relevance – that survive and thrive in the years ahead, as the number of credit unions grows smaller. Eventually there will not be a place in the financial services market for credit unions that stay glued to their seats on the Toys R Us train.

Credit unions often speak in terms of evolution, especially when discussing technology. Simply and bluntly stated, there is no time for evolution at this point. It's time for a technology revolution among credit unions. DaLand is committed to staying at the forefront of that revolution.

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