

# the way forward: embracing innovation in financial services



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# introduction

What stands between your credit union and the growth you strive for? There is a case to be made that the key to sustainable growth is innovation. We must start by realizing that what worked in the past will not necessarily work in future. Thinking that old methods will continue to serve is a sure path to irrelevance.

Traditional credit union values such as personalized, high-level member service will never be outdated, but the technology, tools, and procedures used to deliver that service to the modern member must be continually reviewed, reconsidered, and improved.

Unlike big banks, most credit unions are unable to throw massive financial resources into technological innovation. And because of The Great Resignation, another critical resource required for innovation is also in short supply: qualified workers.

The Great Resignation refers to the roughly 33 million Americans who have quit their jobs since the spring of 2021, making it hard for organizations to fill open positions. According to Karin Kimbrough, chief economist at LinkedIn, “The workers are there, but the terms haven’t yet drawn them off the sidelines. They are hesitating or being more choosy for a variety of really good reasons.”<sup>1</sup>

For credit unions seeking to remain competitive in the crowded financial services landscape, overcoming these challenges to innovation requires creativity, cooperation, and the ability to make smart choices. These are qualities to cultivate for both your everyday operations and long-term planning.

## what is innovation?

True innovation doesn’t necessarily mean being the first to do something – or dazzling consumers with a fancy new gadget or novel capability. Innovation solves problems and gets objectives met in a more effortless and economical manner. In financial services, innovation is the process of creating new financial or investment products, services, or processes. These can include updated technology, risk management, risk transfer, and credit and equity generation. Recent financial innovations, for example, have included crowdfunding, mobile banking technology, and remittance technology.<sup>2</sup>



**Innovation solves problems and gets objectives met in a more effortless and economical manner.**

Your members want digital access to services across devices, personalized information about saving and spending, and advice about handling their finances. Innovation fulfills these desires in ways that are easy, fast, and enjoyable. Today’s accountholders also want to choose how to use these services, so pioneering products must be flexible and customizable. The end users should call the shots on how to apply what is being offered in their day-to-day lives.

Inside the credit union, innovation means a culture open to experimentation and receptivity to new ideas from any direction. Although strong, smart

leadership is required, the process of generating new concepts should not (and probably cannot) be a heavy-handed, top-down affair.

## motivation to change

Why do you need to make innovation a part of your business model? Here are three reasons.

### 1. Innovation is clearly tied to growth.

Businesses that innovate will be better able to compete in the new digital economy. They are more successful and grow faster. And innovation helps companies reach new audiences through different channels, which opens up the potential for increased profits.<sup>3</sup>

### 2. You need to compete effectively with new financial technology businesses that offer enhanced user experiences and low costs.

This is the fintech challenge. As more businesses enter the market with digital solutions for lending, payments, insurance, and more, credit unions must become more agile and modern. To stay relevant, you must attract and retain young, early adopters of new technology.

A recent Javelin report shows that non-banks now provide 65% of financial relationships for consumers in Gen Y and 69% for those in Gen Z. Since they expect to handle all of their transactions digitally, they rarely go into branches or call customer service. So, it's essential for community and regional financial institutions to embrace digital transformation to remain relevant and serve the evolving financial needs of their accountholders.



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### 3. There are too many possibilities and opportunities created by new technologies to continue as before.

Consider how the world has changed in the last decade. Information technology is continually generating new possibilities. For example, cheaper memory, digital transmission, faster processing, and other breakthroughs quickly led to sophisticated cloud-based services, and more changes are always on the horizon. Simplified programming tools are opening innovation to a larger number of entrepreneurs. There is no stopping the flood of invention, and credit unions must learn to surf these waves of change and not be overwhelmed.

## implementing innovation in your credit union

There are numerous ways to keep innovation thriving, and community and regional financial institutions that integrate innovation into their business can better take advantage of opportunities for growth. Credit unions must decide what works for their organizations and develop a plan to implement changes. Below are six suggested ways of implementation.

### 1. Develop a culture of innovation.

Without the right organizational culture, innovation will fail. If you want to cultivate change and generate new ideas, demonstrate that you are serious. Build innovation into your business objectives and goals, and follow through to meet those objectives. An excited and supportive management team makes all the difference in a successful change. Some ideas:

- Evaluate the culture of your organization and its teams regarding support for innovative thinking. How do you currently encourage creativity, react to new concepts, and respond to change?
- Create and fund a group within your credit union to develop new ideas and another group to assess them.
- Reward employees for creative thinking, focusing on the process of generating and trying new ideas.
- Communicate compassionately with employees, making sure they understand that failure or rejection of some new ideas is acceptable and even expected. A failed idea should not shut off the creative flow of new concepts.
- Be sure your mix of new employees includes young people and listen to their ideas with an open mind. Along the same lines, request feedback from younger members and listen to their needs.
- Have a reliable change management methodology, because innovation requires it.
- Give employees time to brainstorm. One of the best ways to encourage innovation is to allow employees the freedom to develop new ideas and brainstorm ways to improve products, services, or processes. Hold regular brainstorming sessions to facilitate the process.

union success. With the right data, you can make informed decisions that increase member retention, improve employee satisfaction, and drive revenue. The data can be captured and analyzed to learn:

- What individual members are using your institution for – and how you might expand their services.
- How members, as a whole, are making use of your credit union – and how you can improve the member experience.
- How you can build relationships and fine-tune your offerings.

More importantly, however, credit unions can use member data to help members improve their financial health, which considers the totality of their financial life: whether they are spending, saving, borrowing, and planning in ways that enable them to be resilient and pursue opportunities. This is critical, because as of May 2021, a staggering 66% of Americans were *not* financially healthy – although they say they want to be.



**Improving financial health starts with measurement.** By analyzing the data you collect from members, you can create **tailored recommendations** on actions your institution could be taking.

## 2. Make full use of member data.

One advantage credit unions have over fintech organizations is knowledge of their members' needs and desires. Innovative credit unions will find new ways to employ this data for retaining members and creating invaluable testimonials that bring in new members. Prioritizing data can make a world of difference when it comes to credit

According to Financial Health Network (an organization that seeks to unite business leaders, policymakers, and innovators to design and implement solutions that improve financial health for all people),<sup>4</sup> 80% of consumers want their financial institution to help them improve their financial health. And improving financial health starts with measurement. By analyzing the data you collect from

members, you can create tailored recommendations on actions your institution could be taking – whether it’s implementing a new strategy, developing a new product, revising an outdated policy, or overhauling an ineffective process – to better serve your members. It’s critical to use this information to help members and make them feel cared for, important, and catered to, as opposed to simply targeted for advertising.

“Ideally, financial services can help individuals and families manage their financial lives and build better financial health,” says Jennifer Tescher, President and CEO of Financial Health Network.<sup>5</sup>

### **3. Take advantage of hosted services.**

Among the many benefits of cloud-based operations is the ability to switch gears quickly and to rapidly pilot new ideas. A credit union’s IT department can be overwhelmed by this need, but hosted services can more efficiently accomplish revisions and reduce time to market. A superior hosting vendor will be familiar with credit union technology, understand your needs, and quickly institute the changes you request.

Additionally, a good vendor should give you the option of unbundling certain services that traditionally would be in a core processing system – such as new account opening, wires, and deposit processing – and moving the components or services to a safe, secure cloud environment to provide greater flexibility and optionality. The services can then be “re-bundled” and customized to fit your institution’s unique needs.

### **4. Use a core foundation with open architecture.**

When change is the standard of doing business, connectivity and flexibility are imperative. Your core platform should be expandable and customizable so you can develop the business models and sales strategies that optimize your openness and maximize opportunities to gain new members and deepen existing member relationships. You need

to not only connect to third-party vendors, but it should be relatively easy to do so. Acquiring a truly open and customizable digital banking platform will ultimately save money and promote your survival.



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### **5. Collaborate with tech experts.**

When resources are limited, alliances come to the rescue. Rather than fighting fintechs, some institutions are managing successful partnerships with them for service offerings. Others are allying themselves with credit union service organizations (CUSOs) to take advantage of the economies of scale and get a wider range of products.

With digital apps and 24/7 access to all kinds of financial information and transactions at their fingertips, consumers are increasingly conducting transactions outside the four walls of a financial institution. This means you must leverage open banking and a unified digital banking platform to simplify the experience for your members. You need to curate the best partners and experiences for your members and make them available through their native digital banking interface.

### **6. Choose a well-rounded technology company as your primary technology partner.**

Another important collaborator is your core processing technology provider. Your core touches practically every interaction you have with your members. It’s the heart of your personalized member service, your innovation, your efficiency, and your future.

But your digital banking platform is more than a core: it's an ecosystem. And it will operate most efficiently as a single platform of capabilities with access to a vibrant ecosystem of leading fintechs and third parties.

You need a technology partner with a next-generation, cloud-native technology strategy that will help you innovate faster, differentiate strategically, and compete successfully as you serve the evolving needs of your members.

### Essentially, next-generation technology is:

- Component-based so services are isolated and enabled to run independently, giving your institution the ability to customize and build platforms that work best for you and your accountholders.
- Open to allow clients to have the best of both worlds: access to best-of-breed capabilities and the ability to embed fintechs of your choice into the technology partner's ecosystem.
- Cloud-native, which means it's built in the cloud and not just hosted in the cloud and enables greater flexibility, faster upgrades, and scale.
- Digitally centric, which puts your institution at the center of your members' financial lives.

## innovation in action

According to a report from Accenture, financial institutions are balancing two imperatives: becoming more empathetic and becoming more digital. So how can credit unions achieve this? One way is by augmenting contact centers with AI, chat, and other digital capabilities.<sup>6</sup> And for Cornerstone Community Financial in Michigan, it's made a big difference.

With 25,000 members and \$355M in assets, Cornerstone has a younger-than-average management team that has embraced digital



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#### Heidi Kassab

Chief Executive Officer  
Cornerstone Community Financial

from the start. “There’s a certain demographic that relies on [digital], so we have to be looking ahead to the next biggest and best thing, says CEO Heidi Kassab. “We want to be sure that our digital experience is as good or better than the big banks.” It was this forward-thinking mindset that led them to Banno Conversations<sup>SM</sup>.

Banno Conversations is a secure, authenticated, and core-connected chat between staff and members. For Cornerstone, use of Conversations started with 521 conversations in the first month and quickly exploded, peaking at 2,000 conversations just nine months later. Cornerstone is now averaging 1,500 new conversations per month.

For Cornerstone, Conversations offers speed, convenience, and operational efficiencies. “One of the greatest things about Banno is that online and mobile are identical,” says Kassab. “Our members recognize that mobile is not a scaled down version of online, and the proof is in the numbers.”

Sometimes, all it takes is a technology upgrade to improve operations and increase efficiencies, as Michigan State University Federal Credit Union (MSUFCU) learned.

The business lending team at MSUFCU, located in East Lansing, Michigan, needed a technology

upgrade to manage its growing portfolio and remain competitive. With 310,000 members and \$6.3B in assets, the institution was seeing strong growth in its commercial lending portfolio. But limitations from previous providers, such as lack of functionality, desired customizations, and ongoing support, became cause for concern.

MSUFCU innovated with LoanVantage® from Jack Henry™, an integrated solution that manages the full origination and life cycle for commercial and consumer loans. “By bringing all loans into one platform with the uniform standards, we ensure that we are tracking, underwriting, and managing the loans consistently,” said Justin Hewson, MSUFCU Business Services Manager.

LoanVantage offers flexibility, customization, and integration. MSUFCU is confident that no matter how large or complex its portfolio becomes, LoanVantage will be flexible and powerful enough to meet their needs, as well as the needs of their members, well into the future. “The ability to grow without having to transition to a different platform is important,” says Hewson. “This all-in-one solution will assist us as we grow.”



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**Justin Hewson**

Business Services Manager  
Michigan State University Federal Credit Union

## the way forward

It's clear that in today's environment, everyone must innovate to compete and successfully serve modern members. The changes keep coming. We can expect advances in person-to-person payments, data analysis, chatbots, pricing and profitability, and mobile and digital banking, as well as cryptocurrency, Banking-as-a-Service (BaaS), Payments-as-a-Service (PaaS), and other emerging technologies.

The point is not to predict what will come, however, but to be ready to capitalize on the inevitable changes that will send waves through the industry. The strategies we have discussed fall into three areas:

### 1. Support creativity.

Build innovation into your business objectives and operations. Promote and reward creative thinking across the organization. There must be whole-hearted management buy-in.

### 2. Build a flexible technology foundation.

In general, hosted services and open architecture support more nimble business strategies.

### 3. Look for partnership opportunities.

Under the right circumstances, a fintech, CUSO, or other entity can help you achieve your goals. Partner with a well-rounded technology company that offers an open, scalable, and flexible platform that will allow you to build your own platform ecosystem that caters to your credit union's strategies.

A critical component to an innovation is its ability to deliver measurable improvement over a legacy alternative.<sup>7</sup> Credit unions need to deliver a more personalized, customized experience on digital channels. Rather than simply taking existing products and services and transitioning them to a digital



or mobile realm, credit unions must conceive of entirely new digital experiences that have the member's desires and goals at the center.<sup>8</sup>

No matter how you embrace innovation, don't forget your "ace in the hole" over disruptive online financial service companies – your personal relationship with members and your trove of data about their needs and desires.

Are you ready to embrace innovation to deliver a more personalized, customized digital experience for your members? With Jack Henry's next-generation, cloud-native technology and open-banking platform, you'll have easy access to a broad ecosystem of Jack Henry solutions and high-grade, third-party fintechs that will put you in the center of your members' financial lives.

You'll be able to build, customize, and evolve digital experiences and products; offer access to leading-edge services and capabilities to create unique value that your competitors can't deliver; and receive personal service in moments of need so you can sustain your competitive advantage of service and trust in the digital age.

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