

Michigan Credit Union League & Affiliates

Annual Convention and Exposition

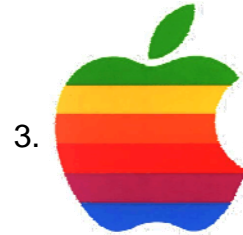
Helping Credit Unions Serve, Grow and Remain Strong

#mculace

Using Technology to Improve the Bottom Line and Increase Memberships

June 6, 2014 | 1:45 p.m. –2:45 p.m.

Peter Fugaro




Today's Session Goals

- **Help you achieve your credit union's technology goals:**
 - **Discover the best technologies for achieving positive return-on-investment**
 - Learn what technologies and business applications on the market today will pay for themselves.
 - **System selection via advanced decision-making**
 - How to implement a proven methodology to ensure you select *the right* technologies from a myriad of available options.
 - **Technology Takeaways**
 - What the Board, Supervisory Committees & Executive team should know to ensure the credit union is making the right investment in the right technologies from the right vendors.

Fitting it Right the First Time

**Part I: Discover the Best Technologies for
Achieving Positive Return-on-Investment**



No Grandma,
Listen,
Double-click the Internet
Explorer Icon.

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MCUL ANNUAL CONVENTION AND EXPOSITION

Technology: 2001

- Windows XP run on PC with 128 MB RAM, 2 GB disks
- No iPods - No iPads - No tablets – No Blu-Ray
- No Facebook – No YouTube – No LinkedIn – No Twitter
- Few Camera Phones and Bluetooth
- 3 billion US text messages sent
- Netflix has less than 600,000 users and offers company to Blockbuster for \$50 million (declined)
- Amazon has \$3B in revenue.



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Technology: 2014

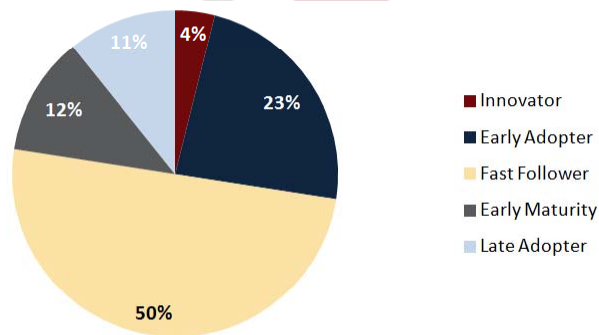
- Windows 8 run on PC with 4 GB RAM, 1 TB disks
- 350 million iPods sold – 170 million iPads sold
- 1.1B Facebook users – 1B YouTube users
- 259 million LinkedIn users – 232 million Twitter users
- 83%+ mobile phones have cameras
- 2 trillion US text messages sent
- Netflix has more than 40 million users
 - Net Worth = \$88B
- Amazon has \$75B in revenue



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Credit Unions & Technology



Source: Callahan & Associates' 2013 Technology Priorities Survey

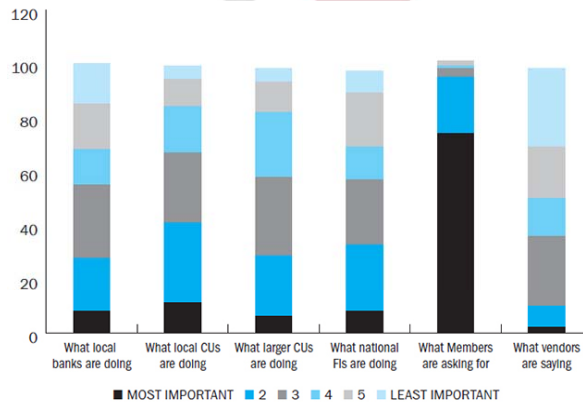


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Credit Unions & Technology

Influencing Tech Decisions



Source: Callahan & Associates' 2013 Technology Priorities Survey



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Invest in technologies that pay for themselves

- CUNA urges its members to “buy with ROI” meaning credit unions must have a definitive methodology to calculate costs and measure performance for their business process and implement technology that have a documented return.
- CUNA offers a spreadsheet to show’s an example of calculating ROI by using their council conference for understanding positive returns.

www.cunacouncil.org/news/3409.html



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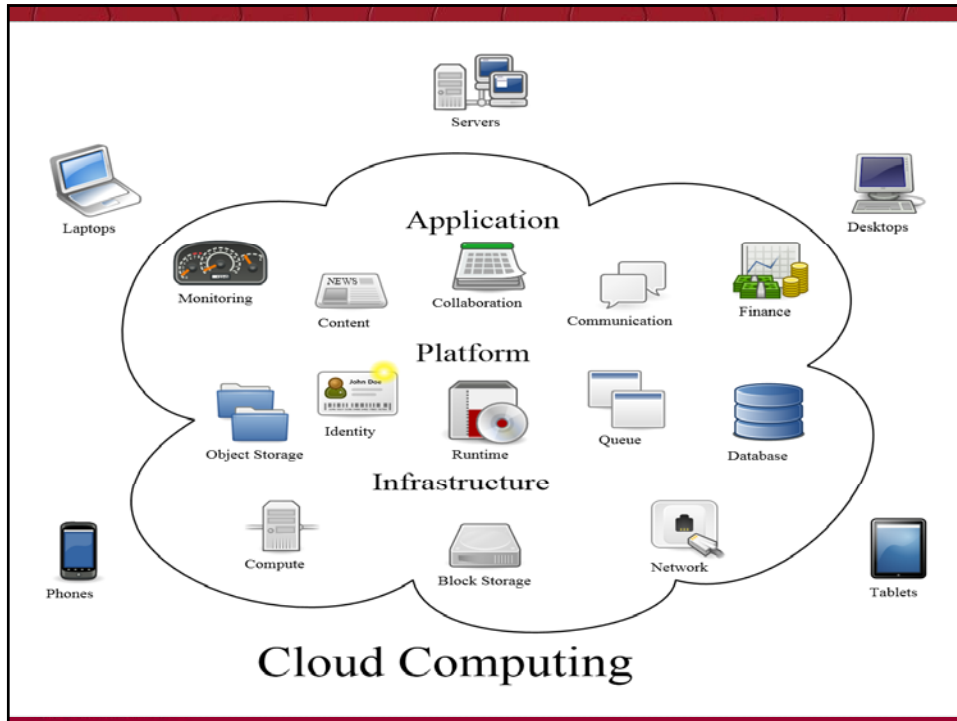
So What Technologies Offer the Best ROI?

- Search “ROI Banking” on the internet and you will find millions of pages. Many from vendors proclaiming ROI on their products.
- Here are some types of business applications that have been more independently evaluated to contain positive ROI:
 - Cloud Computing
 - Big Data
 - Mobile Banking
 - Electronic Marketing
 - Loan Origination Solutions

Cloud Computing

- Cloud computing is Internet-based computing, whereby shared resources, software, and information are provided to computers and other devices on demand, like the electricity grid. In other words, Cloud computing refers to anything that involves delivering hosted services over the internet and encompasses any subscription-based or pay-by-use service that, in real time, extends IT's existing capabilities.





How do they achieve ROI?

Cloud Computing

- Lowers infrastructure costs.
- IT can focus on business improvements as opposed to hardware needs.
- Quick implementation of new applications.
- Conduct business from virtually anywhere an internet connection can be obtained.
- Central copy of business applications for consistent usage and maintenance.

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HARNESSING THE VALUE OF YOUR DATA ON A SMARTER PLANET.

Today's Smarter Planet® is generating an explosion of data. Organizations of all shapes and sizes are facing the huge challenge of managing rapid data growth. How can IBM® help?



90%

90% of the data in the world today has been created in the last two years alone.

— IBM Research

"Every day, we create 2.5 quintillion bytes of data" – Source: IBM

Big Data

- "Big data is data that exceeds the processing capacity of conventional database systems. The data is too big, moves too fast, or doesn't fit the strictures of your database architectures. To gain value from this data, you must choose an alternative way to process it." Edd Dumbill, Forbes
- Volume – CUs are filled with data
- Velocity – Data is coming in fast
- Variety – Data is in many formats and stored across multiple platforms



The Challenge of Big Data



As a result, President Obama has asked senior advisor John Podesta to lead a comprehensive review of Big Data and privacy. Podesta's group will look at how data collection and analysis are affecting everyday privacy.

How do they achieve ROI?

Big Data

- Harnessing data to make product decisions with better understanding of member needs.
- Targeted marketing based on the data from multiple sources including social media.
- Operation improvements to ensure personnel and resources are being utilized correctly.
- Better server utilization.
- Improved business forecasts based on trend data from multiple sources.

Mobile Banking

- Mobile Banking can consist of just simply using a text system to keep customers current with account information when on the run.
- Comprehensive mobile banking allows members to make payments, check accounts, transfer funds, view statements and communicate with the bank electronically from a cell phone, PDA or tablet.



How do they achieve ROI?

Mobile Banking

- Member retention by offering a variety of banking channels.
- Younger member acquisition by allowing Gen Y & Z to bank using their most popular technology devices.
- Move transactions from more expensive channels to electronic devices.
- Studies show mobile bankers use more services and are more engaged in their financial footprint

Electronic Marketing

- Reaching members and potential members through a variety of electronic methods.
 - Social Media
 - Twitter, Facebook, LinkedIn
 - Online Media
 - YouTube
 - Self Publishing
 - Blogs, White Papers, Articles
 - Mobile Devices
 - Email & PURL
 - Online Advertising
 - SEO



e Marketing



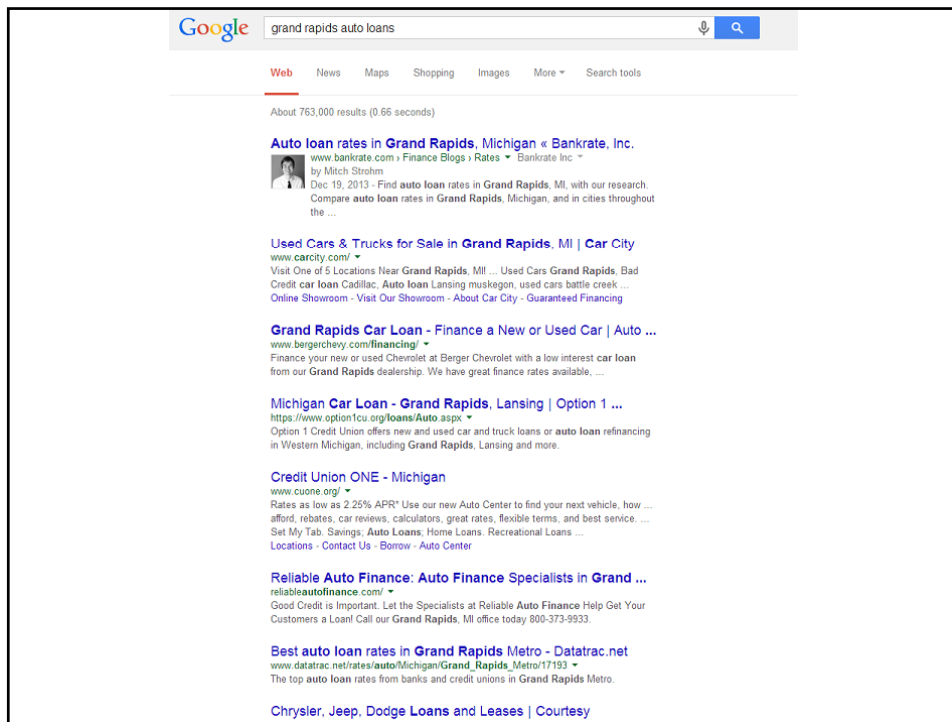
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How do they achieve ROI?

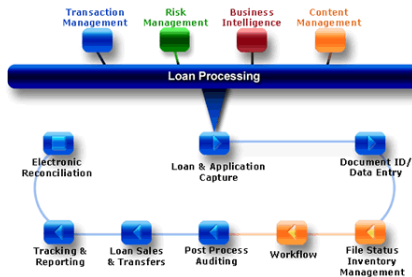
Electronic Marketing

- Less expensive than traditional print advertising or mail campaigns.
- Reaches a broader audience – especially Gen Y and Z.
- Ability to target better.
- Immediate impact.
- Flexibility – can change messages rapidly.
- Interactive with members and potential members.


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Loan Origination Systems

- Many credit unions use banking platforms to originate loans but as lending gets more complicated (especially mortgages) the need for a separate, “best of breed” point of sale (POS) and loan origination system (LOS) as volumes grow.



How do they achieve ROI?

Loan Origination Systems

- Automated (better) credit decisions
- Product fit tools to ensure members make good choices.
- Quicker closings.
- Regulatory compliance
- Automated secondary marketing
- Integration with other platforms
- Electronic Document Delivery – move towards paperless
- Automates -origination, processing, underwriting, closing, funding, secondary marketing, post-closing, quality assurance, investor relations, financial reporting, government monitoring – in an efficient and compliant manner.

WHAT'S THE ROI OF THE SYSTEM YOU'RE ABOUT TO DEPLOY?

IT SHOULD BE IN THE SAME BALLPARK AS THE SYSTEM WE DEPLOYED LAST YEAR

IN OTHER WORDS: YOU HAVE NOT THE SLIGHTEST IDEA

CORRECT!

giant & paul

ROI

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“Mileage May Vary”

- Not everyone gets the same ROI from the same product.
- You need to fully understand your business process and where improvements can be made before expecting advertised gains.
- First, you need to know the exact costs associated with your business function.
- Since labor is typically the largest cost item in a service industry, understanding how much each hour of labor actually cost will help determine where ROI can be achieved.

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Determining Costs

- Calculating the Cost of Time
 - Salary (recruitment, pay)
 - Benefits (vacation, pension, education)
 - Company Insurance (health, life, corporate)
 - Employer Taxes
 - Training costs
 - HR and management overhead
 - Infrastructure costs (PCs, equipment)
 - Share of overhead (building, capital depreciation, consumables)
 - Other time (jury duty, family leave, disability, meetings)
- Cost of an employee can range from 40% to 100% more than their hourly or annual salary.

Using ROI

- Understand where your business process needs improvement
- Understand the costs associated with that business process
- Get the vendor's to explain how their technology will meet ROI goals
- Check their numbers
 - Due-diligence with similar clients
 - Use the internet for help!




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Fitting it Right the First Time

Part II: System Selection via Advanced Decision-Making

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A Proven Approach

- **Systems need to be evaluated against specific process workflows or use-cases**
 - Not based on cool features and functions or latest technology trends
- **Company-wide participation in the process**
 - All disciplines that will use the system directly or rely on information generated from the system need to be involved in the search process
- **New systems should only be introduced if there is measurable ROI**
 - This can only be determined after careful workflow analysis
- **You need to control the evaluation process, not the vendor**
 - Product demonstrations need to follow specific scripting to enable a true comparison and show how you will use the technology with your workflows
- **Vendor due-diligence is just as important as system characteristics**
 - New solutions need to last at least 5-10 years. So the vendor needs to be around for that long; growing and enhancing its products

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Building an Effective Request for Proposal

The critical components of an RFP:

- Overview
- Process Workflows / Use Cases
- Technical Requirements
- 3rd Party Vendors
- Project Plan / Timeline
- Budget
- Scripted Demo
- Evaluation & Selection
- Due Diligence

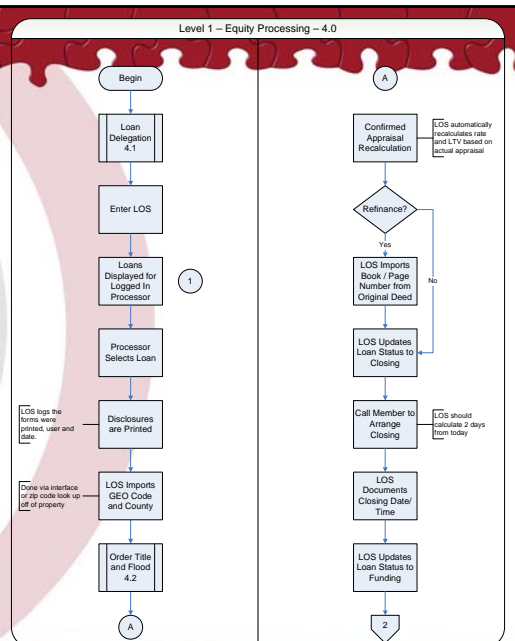


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Work Flow

- Flowcharts for each critical process, plus high-level overviews of each functional area
 - Show how the CU currently performs each task to allow the system to be evaluated to your process flow.



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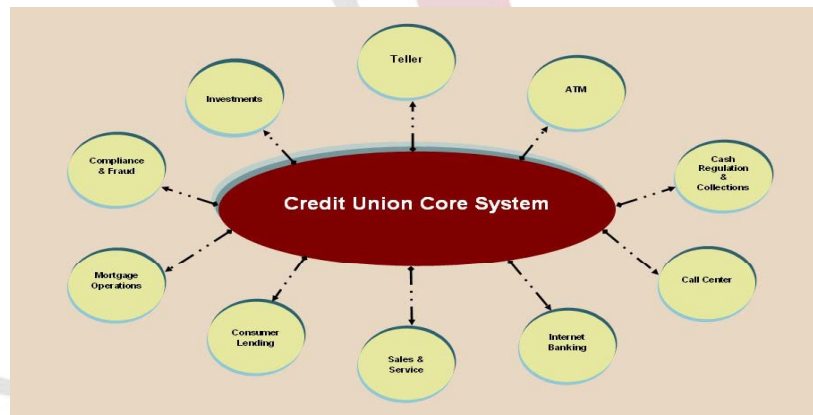
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No Canned Presentations

- RFP sent to vendors, will contain all flowcharts, comments and assumptions
- You'll require vendors to follow a scripted demo of their solution that shows you:
 - One process at a time; in sequence
 - *Exactly* how *you* would perform each process
 - With their software or technology

It's More Than the Core

- It's the spokes...the interfaces...that add complexity...and surprise!
- And you need those vendors and services at the other end of the spokes to give you the productivity gains and functionality improvements



Project Plan and Schedule

- RFP will contain project plan and schedule template
 - Template timeline starts with executing a purchase order for the new system; and ends with post-implementation audit 60 days after implementation of new system
- Vendors need to consider effort involved for interfaces; and coordinate effort/resources with third-party vendors
 - Rather than ask each vendor to complete this section, we recommend telling them that finalists need to do this; vendors must first get through workflow review to get to final selection phase

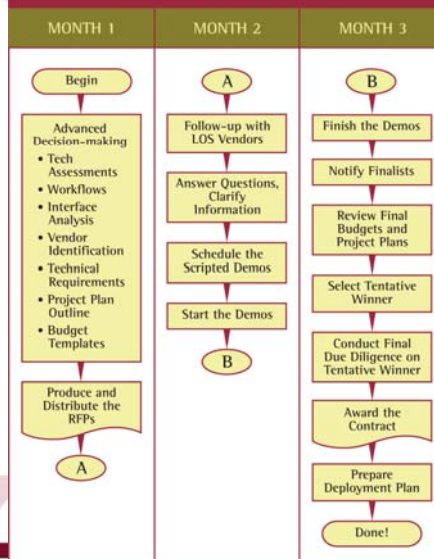
Budget

- Budget section contains one or more spreadsheet templates
 - Contains assumptions about transactions, number of seats, simultaneous users, etc.
 - Respondents will estimate the total cost of solution, not just their license
- Like project plan, finalists need to complete *all* sections, including expected benefits
- This is not supplying the vendor with your budget but providing the tools so the vendor can accurately estimate the total solution cost.

Due-Diligence

- This section explains to vendors
 - What references are required and how checked
 - How you expect vendors to substantiate all claims (see it in production, at reference account, prototype)
- Explains final diligence conducted with winning vendor; after all other matters have been settled but prior to signing
 - Analysis of vendor's client list
 - Onsite visit to vendor's customers
 - Possible onsite visit to vendor facility
 - Source code escrow
 - Financial review

Discovery-180 Timeline



Five Takeaways

- Systems need to be **evaluated against** specific process **workflows** or **use-cases**
- **Company-wide participation** in the process
- New systems should only be introduced if there is **measurable ROI**
- The credit union needs to **control the evaluation** process, not the vendor
- **Vendor due-diligence** is just as important as system characteristics



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Board Oversight of IT

Indeed, board members frequently lack the fundamental knowledge needed to ask intelligent questions about not only IT risk and expense but also competitive risk. This leaves the CIOs, who manage critical corporate information assets, pretty much on their own. A lack of board oversight for IT activities is dangerous; it puts the firm at risk in the same way that failing to audit its books would.

Understanding this, a small group of companies has taken matters into its own hands and established rigorous IT governance committees. Mellon Financial, Novell, Home Depot, Procter & Gamble, Wal-Mart, and FedEx, among others, have taken this step, creating board-level IT committees that are on a par with their audit, compensation, and governance committees.

When the IT governance committee in one of these companies assists the CEO, the CIO, senior management, and the board in driving technology decisions, costly projects tend to remain under control, and the firm can carve out competitive advantage.

Harvard Business Review



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Improving ROI and Overcoming Risk

- Learn more about technology risks and strategies to overcome those challenges in Prymak's Risk Report available at www.prymak.com/risk-report.asp
- Have Prymak perform a risk-free *Initial 90™ Risk Review* at your credit union.
 - It takes just about 90 minutes for a us to conduct an initial review of your credit union's processes and technology systems and help determine positive ROI for systems. With that information, will prepare a no-cost Risk Report.

A graphic of several white puzzle pieces arranged in a circle, with one red puzzle piece missing and placed to the left. A large, light-colored arrow curves around the puzzle pieces from the top left towards the bottom right.

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**Fitting it Right the First Time
Questions and Answers**

Thank You

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