



How to grow deposits

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February 2019

Table of Contents

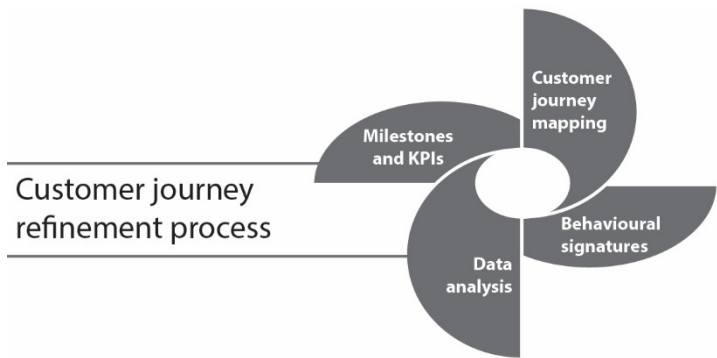
Introduction	2
Organization and Deposit Growth	3
Financial Literacy & Deposit Growth	4
Marketing, Technology & Deposit Growth	7
Business Analytics	10
Online Account Opening	10
Member Profitability and Deposit Growth	11
Conclusion & Recommendations	14
Appendix	15

Introduction




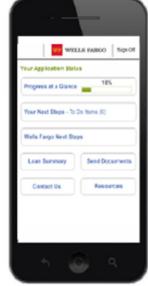
The current wave of digitization of the economy and services provided by tech giants such as Facebook, Amazon, and Google continues to increase customer expectations. Customers expect to have their needs met exactly when the need arises and in a tailored fashion. Financial institutions are being forced to change their century old practices and adapt to this new reality. They must find ways to service effectively in this new environment or risk losing their customers. Financial institutions are unique as their customers (users of credit) are also their suppliers (providers of savings). Thus the need to provide customer service that meets a high level of expectations is very important. Subpar levels of service will impact not only lending but also deposits, and without deposits there is no business. Our group explored ways credit unions can attract deposits. We believe deposit growth is about getting to know our members and helping them make better financial decisions in a digital world. Focusing on any one part of business (e.g. technology) is unlikely to produce good results. Credit unions must look at the efforts of the entire organization, including marketing and segmentation, training of frontlines in financial literacy, and use of technology. This approach will allow credit unions to provide exceptional customer service and attract more credit users *and* suppliers of deposits.

Organization and Deposit Growth

Credit Unions provide great customer service. Ipsos Reid¹, a market intelligence organization, gave the overall Customer Service Excellence award for 2018, among all financial institutions in the retail-banking sector, to Canada’s Credit Unions, an aggregate of individual Credit Unions across the country. This was the fourteenth consecutive year that Canada’s Credit Unions have received the award. But the industry is now being digitized. Credit Unions must adapt their business models, technologies, processes, and workforce to continue providing exceptional service to their members.



Credit Unions need to review their customer journeys and adapt the business model accordingly. Below is an example of Wells Fargo’s customer journey analysis. This analysis allows a business to see what processes and technologies need to be developed/changed to meet the needs of customer for a given situation. Credit Unions should perform similar member journey analyses.

Customer				
	Cindy needs financing for a new roof, and she looks at options online.	She wants in-person help so makes an appointment online.	Cindy meets with a banker who helps her find the best solution and explains next steps.	Cindy receives an alert on her mobile phone to go online and review her loan disclosures.
Wells Fargo	<ul style="list-style-type: none"> ▪ Customer-centric digital content and tools ▪ Options include customized offers 	<ul style="list-style-type: none"> ▪ Integrated appointment system with online and mobile ▪ Prefilled applications for existing customers 	<ul style="list-style-type: none"> ▪ Customer Needs Assessment process ▪ Banker reviews features and terms with customer 	<ul style="list-style-type: none"> ▪ Mobile alerts to keep the customer informed ▪ Access funds many ways including online and mobile

¹ <https://www.ipsos.com/en-ca/news-polls/ipsos-awards-top-honours-financial-services-excellence-canada>

Changes to business models require incremental changes in number of areas within an organization (see appendix 1 and 2 for details). Focusing on one part of organization (e.g., technology) without changing other parts (e.g., processes) will produce a suboptimal return on investment. Modern credit unions should focus on updating their technology, processes, training, and marketing. All four are interlinked. The next section will touch on financial literacy. It will discuss the importance of financial literacy training and development of our employees and members.

Financial Literacy & Deposit Growth

“At a time in our history where we are experiencing the highest economic volatility since the Great Depression, and with consumer debt load at the highest level it’s ever been, in our opinion the need for financial literacy has never been greater.”
- Affinity Credit Union

Financial literacy can be a very broad term and have several different meanings. Financial literacy may mean learning how to create and manage a household budget. It can mean learning how to invest your money, and save towards retirement. Lastly, financial literacy can mean determining ways to buy your first car, home, or save towards a family vacation.

In today’s society, reading and writing (literacy) affects the well-being of every individual, and so does financial education. Financial literacy affects the economic and social well-being of every individual and ultimately, determines the overall strength of a nation’s economy. For the purpose of this paper we will define financial literacy as having the knowledge, skills and confidence to make responsible financial decisions.

In 2009 Statistics Canada Conducted the Canadian Financial Capability Survey. Some of the findings as are follows:

- 51% of Canadians had a budget. Those with higher levels of education were more likely to have a budget.
- 31% percent of Canadians were struggling to meet their payments.
- 70% of Canadians were fairly or very confident their retirement income will provide the standard of living the hope for. However, only 40% have a good idea of how much money they needed to save to maintain their desired standard of living in retirement.
- 48% of Canadians who are planning to purchase a home have saved less than five percent of the cost of the home. Surprisingly, 52% of Canadians who are planning to purchase a home are not expecting to incur any costs other than the down payment.

An original study conducted in 2001 by Douglas Bernheim, Daniel Garrett, and Dean Maki, measured the impact of a mandatory, state-sponsored, high school financial course on subsequent household savings levels. The study concluded that individuals in states

where financial education was mandatory have higher savings rates than residents of states with no mandatory financial education requirement.

Over 99% of Canadians have a bank account with a financial institution, and millions turn to their banks and Credit Unions daily for advice to help them save, plan for retirement and purchase their new home. In 2015, the top 5 banks in Canada invested a total of \$9.5 million in financial education programs across Canada. This was an increase of more than 280% since 2010. Banks have realized that by educating their clients they are helping their businesses grow, and it is now time for Credit Unions to do the same.

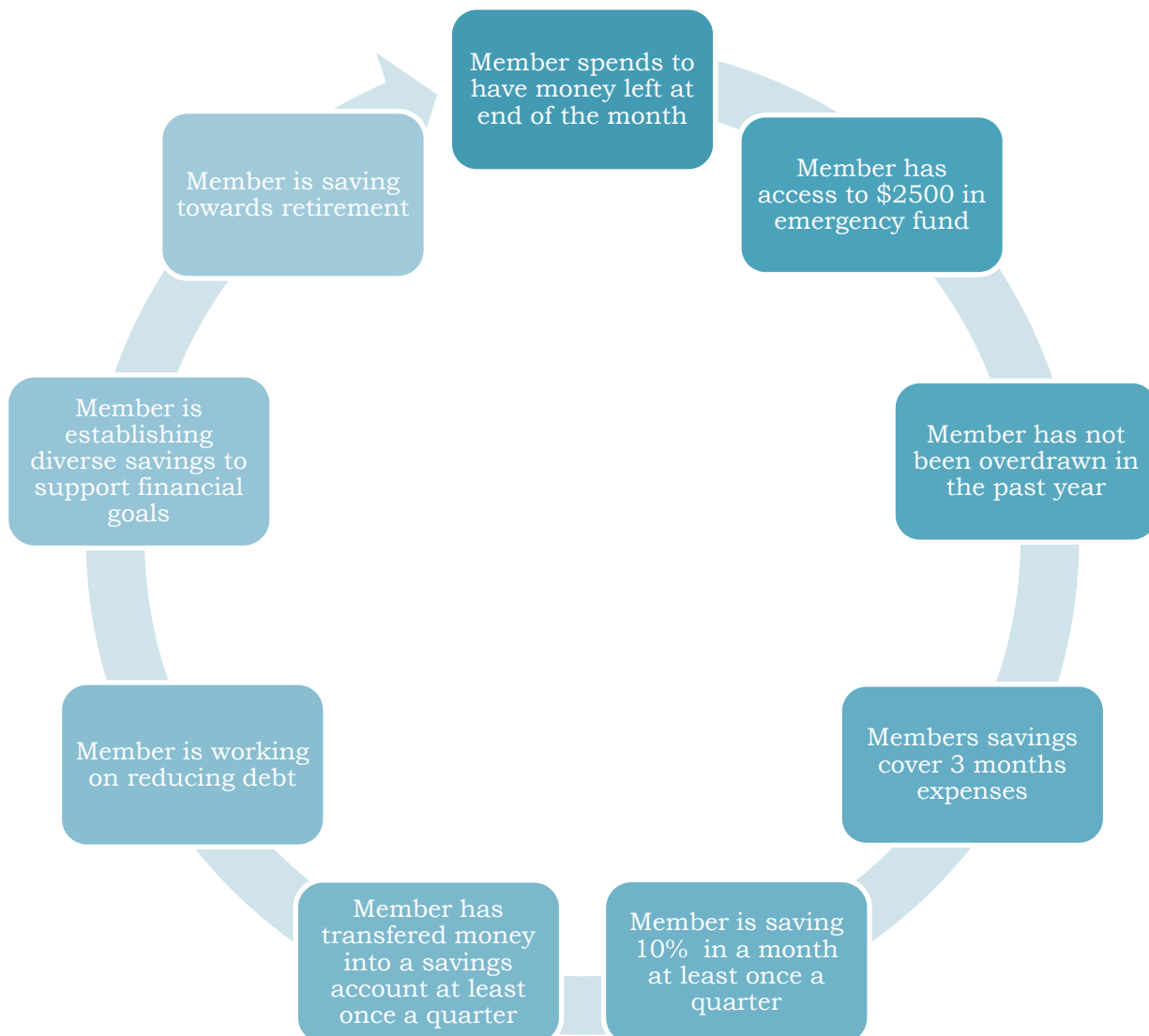
Financial literacy is a strategy that has worked well for many Credit Unions in Canada. VanCity defines financial literacy as ‘building economic strength and independence of its members’. By offering members the knowledge they need to make sound financial decisions, VanCity can secure its member base and its economic future. Financial education programs can open new roads into untapped segments, such as the immigrant, aboriginal Canadians and underbanked markets. The following chart shows which group of Canadians are struggling with financial literacy.²

Area of Financial Literacy					
	Making Ends Meet	Keeping Track	Choosing Products	Planning Ahead	Staying Informed
Who is Struggling?	<ul style="list-style-type: none"> • Aboriginal Canadians • Young adults • Recent immigrants • Low income households 	<ul style="list-style-type: none"> • Senior • Adults who let other make major financial decisions for them 	<ul style="list-style-type: none"> • Aboriginal Canadians • Young adults • Recent immigrants 	<ul style="list-style-type: none"> • Seniors • Aboriginal Canadians • Young adults • Recent immigrants • Low income households • Singles 	<ul style="list-style-type: none"> • Seniors • Aboriginal Canadians • Recent immigrants • Low income households • Renters
Who is Doing Well?	<ul style="list-style-type: none"> • Seniors • High income households 	<ul style="list-style-type: none"> • Recent immigrants 	<ul style="list-style-type: none"> • High income and high net worth households 	<ul style="list-style-type: none"> • Homeowners 	<ul style="list-style-type: none"> • People who have taken a course in financial matters • High net worth households

² Source - Canadians and Their Money - Building a brighter financial future.

Financial literacy programs can create goodwill and loyalty at the community level and strengthen relationships with local members and community partners. This is exactly what the 7th principle of the Cooperative principles states; 'Concern for Community - while focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.'

Building a successful financial education program requires two important ingredients. They are: 1) clearly defined program priorities 2) aligned Credit Union and member needs. The following chart shows how Conexus' priorities match those of its members. Six of the nine financial health check factors are savings focused. When the member saves, the credit union grows.



If done properly, the rewards for having a well-designed financial education program are extraordinary. The benefits include: increased sales, positive branding, better financial decisions by members, and greater financial product knowledge.

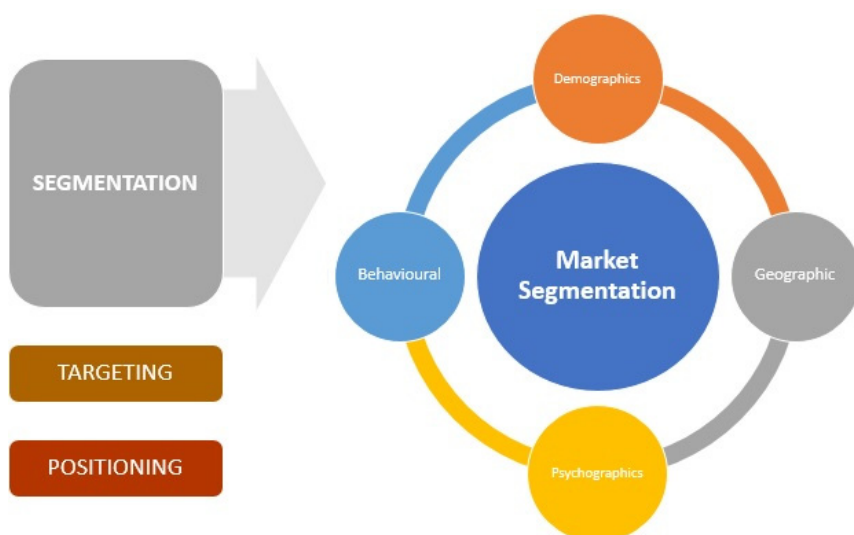
Before we provide financial literacy programs to our members we need to first focus on providing the program to credit union employees. In 2013, BMO conducted a study to measure the financial knowledge and behaviors of its employees. Although the company is a bank, about 40% of its employees aren't in customer-facing roles. All employees were invited to participate, and approximately 15,000 employees responded (almost 35% of all staff). The study found that just over half (57%) of BMO's employees had a budget, compared with 51% of general consumers. This shows that financial literacy programs are not just for our members, they also need to be provided to our staff. For employees to be able to give sound financial advice, they themselves need to be provided with financial literacy education. The employees need to see the benefits of the program and believe in the solutions they are providing.

It is also important to recognize that, while the banking industry is spending millions of dollars every year advertising products to entice consumer spending, relatively little is spent in encouraging people to understand their finances or save for future.

Marketing, Technology & Deposit Growth

Marketing is about telling great stories that persuade people to take action. If you want to reach your target market you have to have a compelling message, something that separates you from the competition and other messages. Talking about the products and services you offer, your friendly staff, or even your new technology is not enough. These things are important, but they are not differentiators, they are table stakes.

The first step to telling a great story is to determine who your audience is. You can use segmentation to target individuals according to their demographics, behaviors, geographic location, or even psychographics, which includes values and interests. By segmenting your audience you can tailor your message and



make it more relevant to the listener. You can also determine the best way to reach your audience.

Consumer debt is a growing problem in our society. In Canada, household debt is around 170 percent of disposable income. This means that the average Canadian owes about \$1.70 for every dollar they earn. This is a Canadian record and the ratio has increased from 100% over the last 20 years. This increase is primarily driven by low interest rates and rising house prices.



FIND CONTENTMENT WITH YOUR
finances

Be part of an organization that encourages good stewardship with service and advice from experts, modern banking technology and a comprehensive range of products you need.

Edmonton
Lethbridge
www.christiancu.ca

 **Christian**
CREDIT UNION

Credit Unions can help people by encouraging them to spend less than they earn. Your core message should be a simple, one-line message that inspires change. All of your messages should support that central theme. A slogan like “find contentment with your finances” will motivate individuals because there is a promise of peace in an area of life that is often stressful. You can support this central theme or message with other values like spend less than you earn, give generously, avoid the use of debt, maintain an emergency fund, and set long-term goals.

These values should be incorporated into all aspects of business to ensure a consistent member experience across all channels (in branch, online) and across all touch points including non-transactional ones such as a Credit Union sponsored

community events. Marketing is too important to be left to a department and everyone in your organization is responsible for representing your organization and getting your message out.

Financial literacy can play an important role in your organization’s growth strategy and must be included in your marketing plans. By producing content that people can use, you are providing value and establishing yourself as a trusted advisor. This can lead to growth in new members and share of wallet. When creating a marketing strategy for financial literacy it is important to set goals so you can measure its effectiveness and make changes if necessary.

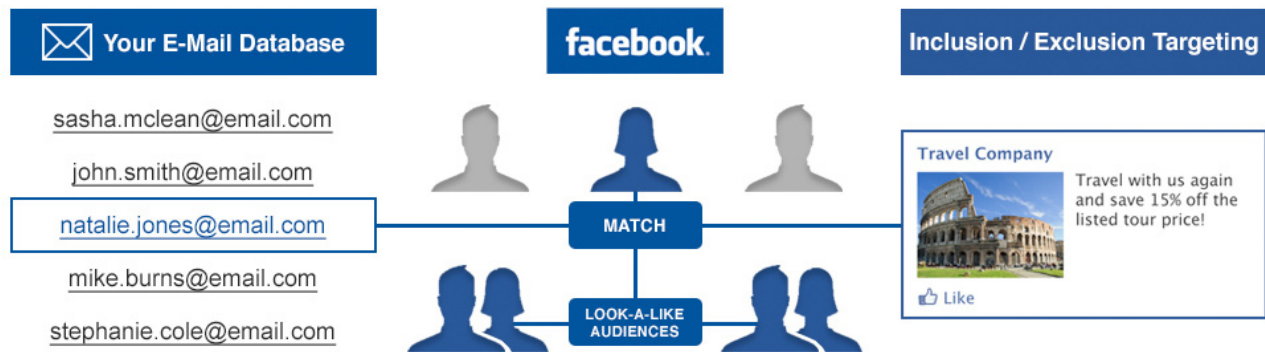
Most Credit Unions have plenty of information about products and services, so why not supplement it with financial literacy material like budgets, calculators, videos, and articles? You don’t even have to create the content yourself, you can partner with organizations that, like “Each One, Teach One,” Currency Marketing, or the Canadian Credit

Union Association. You may even be able to find material that fits your specific values or niche. These organizations produce new content frequently and you can purchase it for a reasonable price.

One of the most effective ways to distribute content is through social media. YouTube is a great platform to share practical money saving tips and content that helps people get out of debt and live and give in financial freedom. You can create some really fun, engaging video content that represents your brand like Northern Credit Union³ did or share content from authors like Rachel Cruze⁴ which is directed at young adults and families and provides practical money management advice. You can distribute these videos through Facebook, Twitter, Instagram or even Snapchat. Spend some time to understand who your target market is and choose a platform that will effectively reach them.



Information from segments can be used to create more targeted ads on social media. With Facebook you can create custom audiences by importing a list of members including phone numbers and email addresses. Once you have uploaded your file, Facebook will create a custom audience and encrypt the data. Now, when you create an ad, you can choose the custom audience and target your members based on gender, age, location, or interests. Facebook can also use the attributes of your custom audience to target other Facebook users who have similar profiles.



³ www.northerncreditunion.com

⁴ www.rachelcruze.com

⁵ Facebook Image sourced from: www.emailvendorselection.com

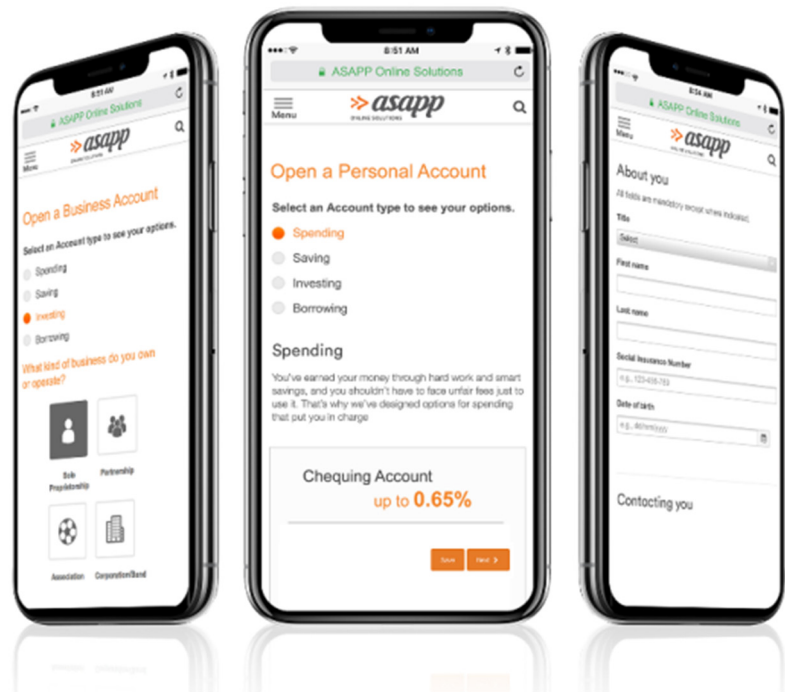
Business Analytics

Business Analytics uses information from the banking system and other channels to provide insight into who your members are and how they do business. A data warehouse can help you extract the data from these channels and present it in a meaningful way. Information about your members can be presented in a dashboard, giving you a 360 degree view of the member value, engagement, next best product, transaction history, attrition risk, and more.

It is important to think about your organizational goals before investing into business analytics. You cannot purchase the technology and expect it to solve your problems. You have to decide what you want the technology to achieve and the best way to do that is to partner with a service provider like Celero (see the next page for an example of the product). They can help you brainstorm ideas, create goals, and develop a roadmap. By working through this process you will get information that is actionable and drives business results.

Online Account Opening

Another way you can encourage deposit growth is by making it easier for people to open an account online. With an online account opening system like ASAPP (ASAPP.com), you can open personal and business accounts and get a loan online or through the mobile app. This is a complete digital experience so the member doesn't have to come into the branch to verify income or sign documentation. The Credit Union can contact the member once they have completed the application or check on incomplete applications. Online account opening systems also tie directly into the banking system so employees don't have to duplicate information.



Online account opening systems should be used to open all of your accounts whether it is done online or in-branch. The software streamlines back-office processes and can reduce the time to open an account to as little as 15 minutes. Adopting this technology requires you to think differently about your current processes and it can take time to get

your employees on board. Encompass Credit Union⁶ rolled out their account opening system in phases, first launching personal accounts, then business accounts, then loans, and they are currently working on registered investments. They set goals for how many accounts they wanted to open and found that once employees learned the new system, they saw the advantages and became advocates.

Credit Unions can use digital marketing campaigns with attractive deposit rates to attract business from new and existing members. The campaigns can be promoted through online and social media channels and drive business to your website. The account opening system makes it easy to open the account and take advantage of an offer. Northern Credit Union runs “flash sales” which usually last 48 hours and are promoted during a holiday season. Their latest flash sale resulted in \$32 million of new deposits with 60% of the money coming from new members and 40% from existing members. By creating some rules and conditions they were able to retain 92% of the new members and build a relationship with them through pro-active sales activities.

Member Profitability and Deposit Growth

The danger of appealing to *every* member is that you might appeal to *none*. Many organizations focus on their most profitable members. With limited budgets and resources it is prudent for Credit Unions to do the same. Given different geographical locations and markets, it is up to each Credit Union to determine which segment is most profitable for them. The most profitable segment can be found by looking at the LTV (Lifetime Value) of members in a segment and their CAC (Customer Acquisition Costs). Once the most profitable segment is determined, investments in marketing, training, and technology (analytics, channels, etc.) can be made with this segment in mind.

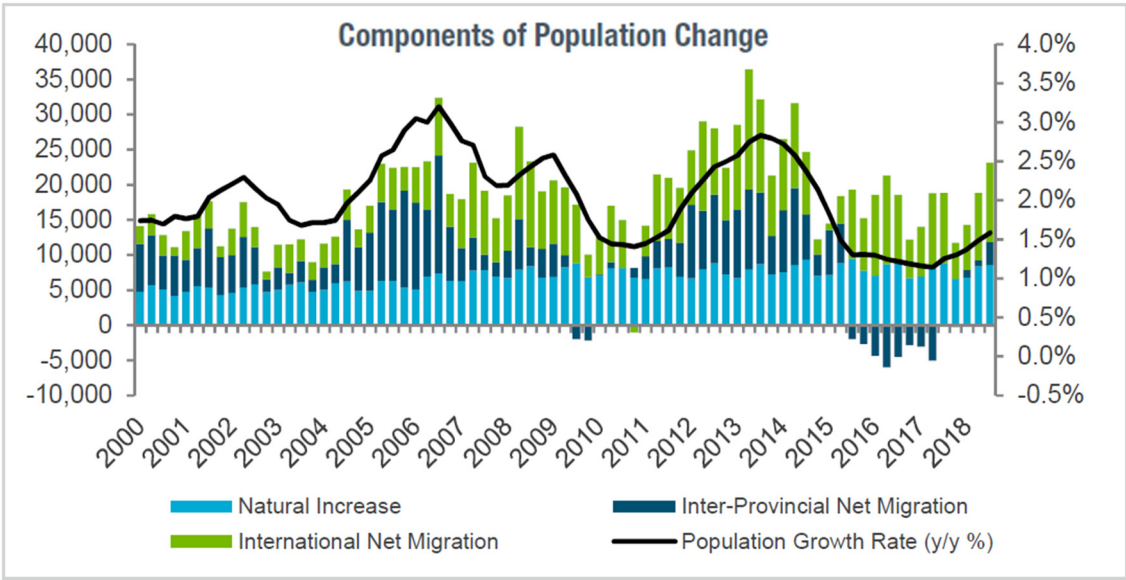
Credit Unions should focus on market penetration. Other strategies (market development, product development, and diversification) are higher risk and should be pursued only once sufficient budgets have been built up to absorb potential risks with these strategies. Market penetration consists of origination, cross selling, and retention. Credit Unions pride themselves in their ability to build strong relationships with their members; this should be leveraged for



⁶ www.encompasscu.ca

cross-selling. Developing deeper relationships with members, inquiring where they hold other products, and asking for the business could be a significant source of growth. To prevent unnecessary member loss, it is important to ask members about their satisfaction with products and services on a regular basis. It is much more difficult and costly to bring in new members than devote resources to retain existing ones. Retention should not be overlooked when looking for growth.

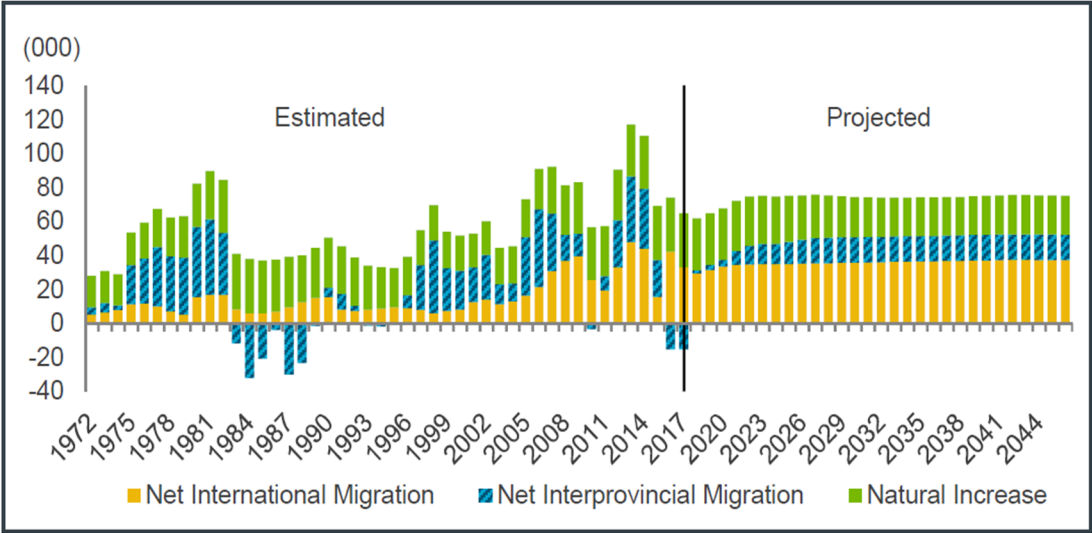
Alberta market base will continue to increase through natural population growth and immigration. A breakdown of the population growth shows international immigration has been a source of considerable growth. The Federal government’s immigration targets for 2019 and 2020 are 330,000 and 340,000 respectfully.⁷ These federal targets are expected to contribute significantly to Alberta’s immigration figures.



The majority of the international immigrants are expected to land in Alberta. This will greatly contribute to population growth and the highest overall growth (natural increase, interprovincial immigration, and international immigration) will be in the Edmonton-Calgary corridor.

⁷ <https://www.canada.ca/en/immigration-refugees-citizenship/news/notices/supplementary-immigration-levels-2018.html>
⁸ Chart: Components of Population Change. <https://open.alberta.ca/dataset/aa3bce64-c5e6-4451-a4ac-cb2c58cb9d6b/resource/a71df6d9-4a40-446f-b209-e7e1feb22a21/download/2018-q3-population-report.pdf>

Components of Population Growth, 1972-2046

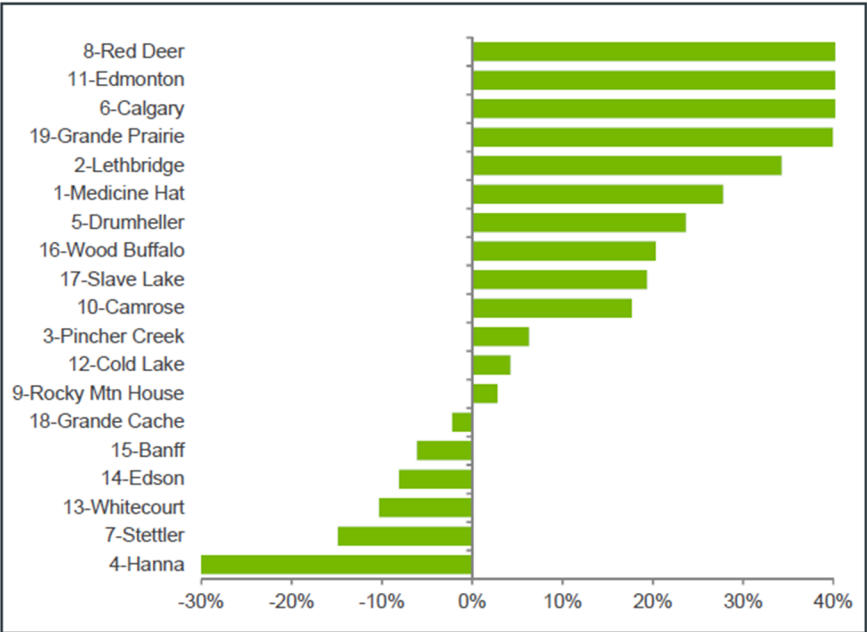


The demographic that would be most suitable as a target market, 15 to 64 year olds, is also expected to grow the most in this region⁹.

It is difficult to target a specific segment that Credit Unions should focus on. Naturally, it makes sense to focus on 50 year olds with low debt and high savings compared to young professionals with mortgages, car loans, student loans, and family costs all challenging their ability to save.

However, in our research, we discovered that one Ontario Credit Union was successful by focusing on a segment of young factory workers. These individuals were paid very well and were great source of deposits. Thus, as mentioned before, it is up to each Credit Union to study their market space and find a segment that will be largest source of deposits.

Percent change of 15 to 64 year olds, 2017-2046



⁹ Chart: Components of Population Growth 1972-2046. <https://open.alberta.ca/dataset/90a09f08-c52c-43bd-b48a-fda5187273b9/resource/1748a22b-c37e-4c53-8bb5-eb77222c68d8/download/2018-2046-alberta-population-projections.pdf>

¹⁰ Chart: Percentage change of 15 to 64 year olds, 2017-2046. <https://open.alberta.ca/dataset/90a09f08-c52c-43bd-b48a-fda5187273b9/resource/1748a22b-c37e-4c53-8bb5-eb77222c68d8/download/2018-2046-alberta-population-projections.pdf>

Conclusion & Recommendations

Growing deposits is about getting to know you members and helping them make better financial decisions in a digital world. Credit Unions serve their members through a number of channels including branches, website, and social media channels. In order to serve their existing members and attract new business, Credit Unions have to adapt their technologies, processes, training, and marketing.

Analysis and the data obtained in this project shows that the Credit Union system can increase deposits through various different areas. We invite every Credit Union to go through the following questions and answer them with an open mind.

- Am I effectively getting to know my members and serving their needs in a digital environment?
- Is financial literacy being promoted by the entire organization? Have our employees been trained?
- Is there an opportunity to target Aboriginal, immigrant, or underserved markets?
- Are we telling a compelling story that motivates people to make better financial decisions?
- Are we leveraging technology to identify opportunities with our members and making it easy for them to open an account?
- Who are my most profitable members? How can I deepen my relationship with them? Can I market to segments of the population with similar interests, values and behaviours?

In conclusion, we believe that stable deposit growth can be achieved when the members and the credit union's saving goals are aligned. Therefore, we urge every credit union to answer one last question; "does the credit unions goals match the goals of its members?"

Appendix

Appendix 1: Stages of business model development in a digital economy

	Stage 1: Underdeveloped	Stage 5: Leading
Process	<ul style="list-style-type: none"> • 'Product push' approach • Little customer segmentation • Products developed ad hoc • "One size fits all" service 	<ul style="list-style-type: none"> • Tailored product offering based on discrete customer segments • Real-time customer insights support personalized interactions • Predictive analytics employed to adjust offers and service actions accordingly • Multi-channel approach based on behaviours and buying preferences
People	<ul style="list-style-type: none"> • No ownership of the customer within the organization • Compensation drives inconsistent behaviours • Customer-facing employees not supported by back office functions • Lack of authority to resolve customer issues at point of contact 	<ul style="list-style-type: none"> • Customer-centric culture pervasive at all levels of the organization • Customer insights is a key component of the company's strategic agenda • Employees take clear ownership for customer problems and manage issues through the resolution
Technology	<ul style="list-style-type: none"> • Technology not aligned with member-centric culture • Legacy systems limit ability to meet customer requirements • Customer data trapped in organizational silos • Lack of enterprise-wide strategy hampers integration 	<ul style="list-style-type: none"> • Unified vision for data management across both enterprise and business partners • Master data is managed as a corporate asset • Proactive measures are in place or ongoing data quality improvements • The organization embraces customer-facing technologies as integral to channel effectiveness
Brand and market position	<ul style="list-style-type: none"> • Low brand equity among target customers - known but not valued 	<ul style="list-style-type: none"> • High brand recognition and strong positive associations among target customers, based on real evidence and reputation for customer focus
Customer segmentation	<ul style="list-style-type: none"> • Broad, undifferentiated offerings, not specific to any district customer segments 	<ul style="list-style-type: none"> • Clearly defined target segments based on robust understanding of current and potential customer lifetime value
Distributor management	<ul style="list-style-type: none"> • Distributor relationships driven by volume, little or no provider involvement in sale or post-sale customer activity 	<ul style="list-style-type: none"> • Highly selective approach to distributors driven by customer and distributor profitability • Partnership approach with selected distributors and joined up customer engagement model
Propositions	<ul style="list-style-type: none"> • Broad range of traditional life products: complex, inflexible, opaque, capital-intensive with provider-financed commission 	<ul style="list-style-type: none"> • Focused product range based on insight into needs of profitable customer segments • Flexible design with transparent pricing, supporting fee-based advice and/or customer self-service
Service Delivery	<ul style="list-style-type: none"> • Transactional and admin-driven, reactive to customer and distributor requests • Low-touch approach with no proactive contacts or value added interaction 	<ul style="list-style-type: none"> • Relevant and value-adding customer contact through variety of media including phone and online self-service tools and information
Customer lifetime value management	<ul style="list-style-type: none"> • No attempt to manage customer lifetime value beyond standard service model 	<ul style="list-style-type: none"> • Explicit understanding of customer lifetime value with value-adding interventions at key stages including lapse, life-stage changes, maturity, retirement, etc., tailored to needs and value of specific customer segments
Culture	<ul style="list-style-type: none"> • New business volume and market share are key metrics • Enforce those customers not actively managed or measured 	<ul style="list-style-type: none"> • Customer lifetime value management is key metric: clear focus on meeting needs of profitable customer segments across their whole life cycle

Appendix 2: Examples of business model analysis

