CUSO Collaboration

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June 1, 2012

When credit union service organizations (CUSOs) first arrived on the scene in the early 1980s, established service providers within the credit union movement weren't quite sure what to think of them. Many viewed them as a threat.

During the past three decades, however, CUSOs have come to embody collaboration and innovation. They now occupy an essential niche within the competitive landscape. They help scores of credit unions operate more efficiently and offer more services.

Guy Messick has helped organize dozens of CUSOs during the past three decades. He firmly believes that if there were no CUSOs today, credit unions would be "behind the eight-ball, and wouldn't have a lot of options" to help them compete with the growing number of players in financial services.

The Media, Pa., attorney also serves as general counsel for the National Association of Credit Union Service Organizations (NACUSO).

"What's truly exciting about CUSOs is that they provide opportunities to create opportunities," Messick says. "Once you're in a collaborative, cooperative relationship such as this, other opportunities come to you that would not have but for the relationship."

Jack Antonini is relatively new to CUSOs—and to credit unions. He assumed the post of NACUSO's president/CEO in December 2010. Before that, he was president/CEO of Cardtronics and previously had been president/CEO of USAA Federal Savings Bank.

Still, it didn't take Antonini long to recognize what CUSOs offer the credit union movement.

"CUSOs are hotbeds of innovation," he says. "Typically, innovation costs money. Doing research and development to come up with new products and services is an expensive proposition. Given the fact that most credit unions have less than \$100 million in assets, they don't have the resources to invest in innovation. Through CUSOs, credit unions come together to do what they can't do alone."

CUSO evolution

As of year-end 2011, 476 credit unions had whollyowned CUSOs, and 2,139 credit unions had either loans to or investments in CUSOs, according to CUNA's economics and statistics department.

NCUA implemented its first CUSO regulation in 1984 when only a few CUSOs existed. Ed Callahan, who was NCUA chairman at the time, was an advocate of credit unions working together to better serve their

Focus

- ► Both small and large CUs use CUSOs to reduce costs and improve member service.
- ▶ Many CUSOs are reshaping their business focus from providing products and services to creating products and services.

members. With the new regulation in place, CUSOs began to multiply.

Before 1993, most CUSOs were set up as a way for credit unions to provide investment services. This was before credit unions gained the authority to provide such services themselves. After 1993, many CUSOs' goals shifted.

► **Board focus**: Doing business with CUSOs is one way to spend within the CU movement and channel earnings back to CUs.

"The trend is to go deeper into the operational side to reduce costs and to achieve a higher level of service," Messick says.

As a result, CUSOs have sprung up that allow credit unions to reduce their back-office expenses. Open Technology Solutions, for example, is a CUSO that provides technology support for three large credit union owners. By joining forces, "they each save up to \$2 million annually from operations consolidation," Messick reports, "plus another \$2 million a year due to better bargaining power with vendors."

Large credit unions aren't the only ones banding together to reap savings in the back office. A California CUSO called CU Shared Resources has five credit union owners—ranging from \$30 million in assets to nearly \$400 million in assets—that all share a core processing system. They split the costs of not only the core processor, but also the necessary add-ons, such as firewalls and intrusion prevention and detection systems, and create savings for all five owners.

Saving money has been a key driver behind new CUSOs. Meeting members' rising expectations for financial services is another. Today's diverse CUSOs enable credit unions to offer mortgages, business loans, shared branching, mobile banking, credit and debit cards, and state-of-the-art home banking.

CUSOs are facilitators for the credit union movement, Antonini says. "CUSOs enable credit unions to offer a broader range of products and services than they could offer on their own."

Operational savings and a wider range of products and services translate into tangible member benefits, Messick says. But there are other CUSOs, such as CU Realty Services, that deliver other types of benefits to their member credit unions.

Members can go to participating credit unions' websites to find multiple listing service (MLS) offerings, plus referrals to real estate agents who agree to rebate 20% of their commission to members. That resulted in savings of \$1.8 million for home buyers and sellers in 2011, according to CU Realty Services. Some participating credit unions estimate a 25% increase in their purchase-mortgage business, according to Messick.

NEXT: Innovation

Innovation

While CUSOs spark innovations for credit unions, they also must be innovators within their own organizations to compete against for-profit vendors (and in some cases other CUSOs) offering similar products and services.

Such thinking has led PSCU to reshape its business model, which it unveiled at CUNA's Governmental Affairs Conference in March. Founded in 1977, PSCU is one of the oldest CUSOs. With 680 owners and more than 1,500 participating credit unions, it provides card processing, electronic banking, bill payment, mobile banking, contact centers, and strategic consulting services.

As part of its new business model, PSCU set up an "innovation lab" and a "credit union experience team." PSCU uses these tools to collaborate with its credit union owners/participants to create solutions and bring them to market faster.

"There are a lot of smart people in our industry," Kelly says, "and we have some of them here at PSCU. We want to have conversations with our credit unions so we can learn from them. Engaging in collaborative innovation with our credit unions and other CUSOs is the path forward."

Possibilities exist for more collaboration among CUSOs, says Tony Boutelle, president of CU Direct—a CUSO that was launched in 1994 to provide an indirect lending platform and now offers several additional lending solutions. CU Direct has 1,000 participating credit unions; about 100 of which are owners.

"We want to partner with other CUSOs to do projects with them," Boutelle says. For instance, CU Direct provides the lending platform that CO-OP Financial Services, another CUSO, uses in its lending center.

Credit Union Student Choice, with more than 200 partners, is another example of collaboration among multiple CUSOs and credit unions. Founded in 2008, its stated purpose is "helping students and families finance a higher education, without a higher price tag."

Similiar collaborations among CUSOs and credit unions could be a boon to the entire credit union industry, Boutelle points out.

"We're seeing more of this type of innovation and collaboration today," he says. "But it does require people to be more flexible in their approach to doing business."

In the family

CUS COLLABORATE ON TECH SOLUTIONS

Credit union and vendor experts are collaborating on CUFX (Credit Union Financial Exchange). It's an initiative of the CUNA Technology Council to develop standards that would make the product and service integration process across the credit union movement easier and less expensive.

Initially, CUFX will focus on new applications or existing transaction sets that support new initiatives, such as personal financial management, membership applications, and online banking. Building on these key initiatives, CUFX will create new standards so backend systems can speak the same language. Future initiatives could include re-engineering existing transaction sets.

Credit unions can get involved by providing expertise or financial support, or by adopting the established standards.

For more information, visit <u>cufxstandards.com</u>.

Using CUSOs is a way for credit unions to keep the money they spend within the movement. Earnings get channeled back to credit union owners. "That helps the movement grow and better serve members," Antonini points out. "It's a self-sustaining cycle."

That said, getting more credit unions involved in CUSOs remains an elusive goal.

"The No. 1 challenge for any CUSO is getting enough credit unions on board to obtain scale," Boutelle says. "Until you have scale, you have no economies, and economies drive CUSO success."

Boutelle believes credit unions could use CUSOs more than they do now. Sure, CUSOs have to deliver strong value propositions to credit union clients, just as credit unions must weigh the CUSO option against an outside vendor or a do-it-yourself option.

"That's only fair," Boutelle says. "The CUSO option should be evaluated along with those other options. You leave a lot on the table if you just go with a vendor. You have no control over the delivery channel, and your prices are probably only going to go up."

Many credit unions, however, don't participate in CUSOs, Antonini points out, and only a fraction of those that do participate are owners. By owning a piece of a CUSO, rather than just participating, credit unions "have a vested interest," he says. "They make sure the CUSO does the right thing—there's a congruence of goals."

Investing in a CUSO is not just for larger credit unions, as some might believe, he adds. Even a small investment gives a credit union a stake in the action. And having owner representatives on the board helps keep CUSOs accountable on pricing and performance.

The fact that credit unions have a stake in CUSOs is a major advantage for the industry as a whole, says Mark Zook, president/CEO of \$410 million asset Maps Credit Union, Salem, Ore. Zook is also the CEO of Maps Service Agency—the holding company for the credit union's four wholly-owned CUSOs.

"When we have strong industry-owned partnerships," Zook says, "we have a better sense of our destiny. We have more control than if we each stood alone with our own vendor relationships," where none of them are linked by the common characteristics that link credit unions.

NEXT: The flip side

The flip side

The control aspect, however, has a flip side. Credit unions sometimes feel reluctant to collaborate through CUSOs for fear they'll have to relinquish control over how they conduct business and serve their members.

"Credit unions want to do the right thing for their members," Antonini says. "But doing the right thing for members often means collaborating to lower your costs or to get a higher level of expertise than you could get on your own."

Still, collaboration is much easier to talk about than it is to do, Zook concedes. He sees a shifting mindset in the movement, however, toward collaboration driven by necessity.

As smaller credit unions vanish for a variety of different reasons, remaining ones look for ways to join forces to survive and thrive. Larger players also seek solutions as they've watched their margins get ever thinner.

"We'll need to look further for opportunities to unite," Zook says. "That's true on the cost-saving side, but it's also true for technologies and potential revenue generators in our future. If we collaborate, we can build those solutions together."

For credit union executives and boards struggling to decide whether or not to collaborate, Messick offers a bit of advice.

"First, determine what you will *not* collaborate on," he says. "That's often the member-facing services. Credit unions want to handle those themselves. But for everything else, consider collaboration."

Whether that collaborative effort results in joining an existing CUSO or forming a new one, the essential ingredient is trust. You have to trust in your partners and in what the collaborative process can deliver.

"Short-term setbacks do occur when you come together to try to build a relationship," Messick says. "It takes vision to see the long-term benefits."

SIDEBAR: Coming Soon: New Cuso Reg

CUSOs and trade associations have voiced their concerns and sent in their comments. Now, they're in wait-and-see mode regarding NCUA's proposed revision of its CUSO regulation. Originally, the revision was supposed to take effect in February. It could now emerge in final form this summer.

Jack Antonini, president/CEO of the National Association of Credit Union Service Organizations (NACUSO), sees the delay as a positive sign. It means NCUA is taking its time and reading through nearly 300 comment letters.

The agency is thinking about this, he says, "and trying to do the right thing." He also is encouraged in the wake of discussions he and other CUSO leaders had with NCUA staff and board members during CUNA's recent Governmental Affairs Conference.

As first presented months ago, the rule requires CUSOs to file financial reports with NCUA and allow access to their books and records. NCUA views this as way to safeguard the credit union movement from financial losses.

CUSO advocates caution that unnecessary regulatory burden could stymie innovation, which would diminish CUSOs' ability to compete with nonindustry firms and discourage credit unions from forming CUSOs.

And under the Freedom of Information Act, nonindustry competitors could request access to CUSO financial data and other records submitted to NCUA. It's safe to say CUSOs wouldn't want that information to land in their competitors' hands.

Still, the debate over the new NCUA regulation is an opportunity, says Guy Messick, a Media, Pa., attorney and NACUSO's general counsel.

"People get concerned when the regulator comes knocking at their door," he says. "But it's not all bad.

The regulators need to know more about what CUSOs do. CUSOs can tell their story, and the regulators can come to appreciate that CUSOs are not a systemic risk to the industry. Rather, they're essential to credit unions' future."

Resources

- ◆ <u>Credit Union Financial Exchange</u>
- ◆ CUNA: 2012-2013 Credit Union Environmental Scan:
- ♦ <u>NACUSO</u>