By Nicolette Lemmon

Credit Unions— THE NEXT GENERATION

What the future holds

The year is 2015. Don dials up his credit union from his interpersonal telecomputer, which he carries everywhere. It's his telephone and window to the world, containing all his family's personal data. As the screen comes up, Don chooses a live interface mode instead of direct account access because he needs information about a new investment the credit union offers.

The credit union's member service representative greets Don via a videoconferencing mode. When he asks about the investment, she provides several scenarios outlining how the investment will fit into his personal portfolio. She downloads the scenarios via the data link for him to review later.

Now Don checks his credit account balance. He switches to the interactive account interface and selects the car dealer network, views several car videos, and talks to a sales representative via videoconferencing about delivery. After checking the price of the model he likes, Don reviews the terms and monthly payments and saves the information—including the car video to show his wife later—to a disk.

Then Don transfers funds to his daily account. Afterward, he passes his credit union card through the magnetic swipe on his interpersonal telecomputer and transfers the data containing the account changes made to his all-in-one financial card.

What a difference 20 years can make. Each part of the technology described in this scenario already is available. As the components become more easily linked, the way financial institutions deliver services will change dramatically.

Reducing brick and mortar means decreasing rising expenses while remaining convenient to attract members in a low-rate, competitive environment. This concept has accelerated technology such as the attended sales machine, a private financial center offering videoconferencing from locations such as shopping malls, grocery stores, and office buildings.

As consumers use more self-service banking terminals, the challenge will be to find alternative channels to reach them for more sophisticated product sales transactions. That's what the Automated Delivery Systems Industry Report says. It's published by Personal Financial Assistant, Inc., Charlotte, N.C. Two notable trends contribute to this challenge: Consumer comfort with self-service technology is high and growing. And most people are receptive to new technology alternatives.

Creating the virtual branch

Personal computer (PC) home banking is one alternative some credit unions are piloting to allow members greater access. Automated teller machines (ATMs) with phones or video screens also are offered today. The newest delivery channel is the noncash service terminal, which has a video screen to provide a visual connection with the financial institution.

All three channels ultimately will form the "virtual" credit union branch. Large telecommunica-

tions companies are relying on the interactive television channel to allow consumers access to everything from their homes. Television's ability to broadcast visuals such as commercials and videoconferencing gives it more flexibility than the currently limited number of computers with video. With CD-ROM, high resolution graphics cards, video capability, and new screen technology, communication will change to a compact, easily transported, interpersonal telecomputer.

The new breed of CUs

Predictions abound about the declining number of credit unions and banks in the next century. Some experts predict that within five years, fewer than 9,000 credit unions will exist. The same consolidation is occurring in the banking industry. Those who survive will be the "fittest," not in terms of brick and mortar, but in terms of financial fitness. And new delivery systems based on technology will be critical.

"Pure, unfettered competition creates insecurities and fear," said William Seidman, former chairman of the Federal Deposit Insurance Corp., in a speech last year. "Change leaves a group behind." With technology, those left behind are farther behind than ever before. The economic Darwinism of the 1990s will bring leaner, more adaptable, and fewer credit unions serving more members.

Those who survive will be "fittest," not in terms of brick and mortar, but in terms of financial fitness and new delivery systems based on technology.

One aspect of the new breed of credit unions will be the amount of attention credit unions give to member retention. Electronic services already extend convenience to members. With financial services now considered commodities, consumers have the "sultan's power to command what they want, when they want it, at a price that will make you weep," reports the "Tough New Consumer" publication from *Fortune* magazine in 1993. To keep members, credit unions will compete head-on with banks in several arenas, to offer the best rates, lowest fees, maximum convenience, and the best service. "You'll either provide it or vaporize," reports *Fortune*.

Personalized service with a new work force

While everyone is aware of the demographic changes ahead, there's little done to adapt to them, indicates a Hudson Institute study of preparing for the work force of the 21st century.

Several demographic trends stand out. The work force is growing slowly—becoming older, more female, and more disadvantaged. New jobs in service industries will demand higher skill levels. One in four families will be Hispanic in origin in the 21st century.

To ensure their future, credit unions must focus internal energies on improving productivity, reconciling the demands of women regarding work and families, integrating more minorities, and improving worker education and skills.

Hiring qualified staff is already a problem. Because of the shortage of skilled workers and the advances of technology, staff need technology-based training to increase productivity. Increased productivity, in turn, alleviates the need to add personnel. Future credit unions will see more pressure to create unique solutions for individual members, requiring a skilled, competent staff.

One item to screen new job applicants is video-based job interviews. CD-ROM's capabilities for interactive applications enable the applicant to proceed through a variety of scenarios. This weeds out unqualified applicants without tying up a supervisor's time interviewing.

The changing membership

Credit unions today serve more savvy and demanding members who, like other consumers, command anything they want. "You want loyalty? Get a dog," says futurist David Zach. His statement sums up the shopper's attitude of consumers in the 1990s.

Being a member-driven organization means more than just adjusting the credit union's loan rates. The fundamental relationship between members and the credit union has changed from one of sentimental loyalty, once enhanced by employer loyalty, to being a customer at "your bank." Frequently during focus groups, members call credit unions their "bank." They do business with the credit union as their banking choice. Employees' loyalty to their employer was lost with downsizing and corporate failures. The result: Customers, having many options, look out for themselves. This presents a fundamental shift in how tomorrow's credit unions will relate to members.

Anytime banking

As consumers continue to buy PCs, use ATMs, and access accounts through audio response, the door opens wider for alternative delivery of finan-

cial services. The flexible multimedia environment will allow financial institutions to interact with individual customers more easily. Newer, more powerful information tools will soften the demarcation between business day and home life.

Imagine the combination of automated voice response systems, data and document image systems, and systems for the intelligent routing of voice communications to take care of a call without having it lost or transferred. Communicating with members in the future will depend on their technology choices.

One member may dial up from the office to make transactions. Another may be at home, shopping on an online service such as CompuServe or America Online. A third member may be seated one evening in a credit union kiosk at the mall, getting a loan for a large furniture purchase.

Credit unions in the 21st century must tune into members' myriad financial habits. They must allow members maximum access without adding physical branches.

More savvy consumers and an overall aging population will require delivery systems that meet their needs. The challenge for credit unions also will be to serve most efficiently. During the next 20 years, for example, the largest group of baby boomers will retire or be close to retirement. Because many credit unions grew with baby boomers as borrowers, they will see pressure to meet boomers' needs as savers.

One aspect of the new breed of CUs will be the amount of attention they give to member retention.

Credit unions must recognize the growing diversity of their membership. Traditionally, credit unions served a homogeneous group of people having a common bond. With mergers and opening fields of membership to select employer groups, credit unions no longer can use one strategy to market to all members.

Many banks already are embracing diversity by offering marketing materials in various languages. The First Bank of Wisconsin in Stevens Point, for example, produces brochures in Russian, Spanish, and Hmong.

Strategies for success

To survive, consider these four equally important areas in planning strategies for the future:

Retail banking orientation. The key to a successful credit union, even today, is its ability to establish multiple service relationships with members. Most credit unions have just begun to see the importance of capturing more of members' financial services and providing those services.

Banks and nonbanks, however, already compete head-to-head with no-annual-fee credit cards and no-fee checking. Recently Bank America began promoting Saturday and Sunday hours. And with interstate banking restrictions now lifted, pressure will mount for local credit unions to extend their hours.

Credit unions already are moving front-line personnel from order-taking to a sales culture. Teller, new accounts, and loan personnel must be well-trained to provide a quality service encounter enhanced with cross-selling.

Hiring new staff will be more difficult as the shortage of skilled workers expands. Keep current employees motivated with competitive training and pay scales. A retail approach is crucial to competing. But the staff fulfilling the service encounter need management's attention.

The ultimate strategy is to move toward specialized member service representatives who know and work closely with more profitable groups of members. It allows the credit union to devote staff to more profitable services, letting technology fulfill self-service banking needs. (This doesn't mean, however, that credit unions ignore members needing basic services.)

The virtual branch—enhancing the technology interface. Technology definitely drives the vision of the future. By the end of 1994, one-half of consumers under age 55 had at least one computer at home. Also, the proliferation of people accessing major online services via the Internet indicates that physical branches won't be as important as grasping technological solutions to delivering financial services. Through their leagues, credit unions can connect to their own online information network, METEOR®.

The Credit Union Interchange Group (CUIG) is one entity attempting to clear an online path for credit unions, says Rae Miles, CUNA & Affiliates' vice president of New Product Development. "Two key issues are how to build a national identity and connections for credit union members and how to create the standards for the switches credit unions will need." CUIG also is charged with finding products and services to be delivered on the infrastructure to credit unions.

Today large banks use electronic kiosks and supermarket branches to alleviate the high cost of stand-alone branches. The key is to bring down the delivery cost while adding a low-cost mechanism for improving service and product sales.

Young consumers will use self-service banking alternatives. And a Mentis Corporation survey indicates consumers ages 25 to 44 with annual incomes greater than $50,000 are more likely to embrace electronic delivery channels (ATMs, audio response, and home PCs).

The branching strategy of tomorrow must include the attended sales machine, with an ATM located in large company office buildings and plants, military installations, hospitals, supermarkets, and malls, and coupled with electronic interface capabilities through home or office PCs.

Tailor for the individual by targeting consumer lifestyles through customized services. Targeted marketing has been available for some time, but today it means more in terms of competing for consumers.

Consumers in the more complex 1990s reflect the trend described by trend-watcher Faith Popcorn: that of the "vigilante consumer." This term describes the consumer who came out of the dream decade of the 1980s into the nightmare decade of the 1990s. Rightsizing drove many overextended people into bankruptcy or out of good paying jobs. The economic slowdown forced everyone to compete. Today's consumers are more savvy, irritated, and demanding. They want the lowest cost, best quality, and most convenience. If the credit union cannot meet their demands, another financial institution will. These consumers vote economically.

> *Consumers have the "sultan's power to command what they want, whether they want it, at a price that will make you weep."*
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> —"Tough New Consumer," Forbes *special issue*

Fulfilling the 1990s customer demands requires offering more choices to fit unique needs. Offer all kinds of loan products for all types of needs. Although some loans may attract too few applicants to meet the credit union's loan goals, remember that customizing loans is what credit unions traditionally are known for. And they enhance the relationship with the member.

Realizing the demand for customization, many credit unions are successfully packaging services. Some fit the needs of 18- to 24-year-olds, the borrowers of the future. Others, such as a preferred member benefit program, solidify relationships with members who have a profitable service mix.

Positioning for the future by merging or partnering. As consolidation continues, credit unions may need to find "matches" in fields of membership, geographic markets, and/or operations and facilities. For those challenged by changes such as losing a sponsor or experiencing slow employee hiring, a merger or partnering may mean survival.

Aggressive, strategy-driven credit unions can become stronger regionally or within their metropolitan market. Continuing to serve only one major sponsor limits their long-term opportunities. Credit unions serving the same huge corporation can link up to provide efficiencies in backroom operations and technology. To successfully position a credit union today:

- Give core members access to their credit union accounts via a dial-up interface, one step above audio response;
- Look only at retail, storefront branches for short-term growth near malls or supermarkets;
- Start developing places for kiosks or attended sales machine-style virtual branches with centralized phone/video centers to expand the credit union's reach without physical plant overhead;
- Commit to training staff to be well-versed in cross-selling and technology;
- Handpick personnel as personal account executives for the most profitable members;
- Create a loan program for every level of need to offer more across the entire membership;
- Target key member groups for acquisition and retention. Include a starter financial package for young adults and a continuing valued-member program for profitable, multiservice members;
- Fine-tune use of marketing customer information file (MCIF) reporting to watch trends within the database;
- Demand better technological solutions from data processing companies to enhance audio response, PC banking interfaces, and customer reporting modules;
- Align with other credit unions to gain greater reach, lower operating costs, and more competitive services; and
- Embrace change quickly. Don't be left behind in the ever-widening gap between the successful and the paralyzed. □

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