The Digital Cooperative Bank:

A pivotal moment for Canadian Credit Unions

June 2018

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An introduction

The Digital Cooperative Bank:

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The pace and scale of digital transformation is creating new challenges and opportunities for cooperatives to remain relevant to their members.

In 1844, at a time of dramatic and accelerating disruption, as the Industrial Revolution gave way to the Technological Revolution, a small group of weavers and other tradesmen came together to found what is commonly held to be the first modern cooperative: the Rochdale Society of Equitable Pioneers. Among the Rochdale Society's objectives were a focus on supporting members who suffered underemployment or unemployment because of a rapidly changing employment environment where workers were being replaced by mechanized labour. The Society reimagined how individual tradesmen could come together for the benefit of all and became a model for values-based cooperation across the globe.

Almost 175 years later, cooperative banks around the world are bearing witness to another kind of revolution – the Digital Revolution – and the transformative effect it is having on the lives of their members. The challenge they face is equally profound as the one experienced by the small group who founded the Rochdale Society, with one important exception – the pace, scale, and breadth of change is even greater today.

Digital disruption of cooperative banks

Digital is creating three simultaneous challenges for cooperative banks: meeting members' new expectations; winning against new competitors; and hiring, developing, and retaining the new talent required to succeed.

1. Members' expectations are being reset externally

Digital is rapidly transforming the expectations of cooperative members – with the bar for what is "great" often being set outside the cooperative's industry. Members are increasingly demanding the personalization of Amazon, the seamless integration of Apple, and the ubiquity and simplicity of Google.

Today, more than 85 percent of financial products sold are delivered through a multi-channel sales journey (e.g., research initiated online, product purchased in a branch). In Sweden, Swish, a mobile payment system backed by all the major banks, is used by more than 50 percent of the population to transfer money instantly and securely – reflecting the country's status as the most cashless society on the planet.

However, it is not only better experiences members are demanding. Paradoxically, although digital products and services come with the advantages of instant delivery and often greater flexibility, recent research by Harvard Business School shows that individuals value them less than their analogue equivalents. Consequently, cooperative banks face the dual challenge of investing more in digital channels and capabilities to deliver products and services for which their members want to pay less.

We argue that three digitally enabled trends are already transforming the ways in which cooperative banks operate today – and over the next decade.

2. New competitors are transforming cooperative ecosystems

Digital tools and capabilities are rapidly eroding traditional barriers to entry. The advantages that historically protected cooperative banks – a membership group often geographically bound, for instance – are diluted in an era where virtual communities can connect thousands of people from across the globe, the majority of whom may never meet face to face. Moreover, delivery of products and services through digital channels creates tremendous economies of scale and reduces the capital constraints that might previously have held new entrants at bay.

Fintechs and other disruptors are also disintermediating the value chains in financial services, selecting the most attractive elements and focusing on redefining the customer experience. They are part of a broader movement toward the elimination of traditional value chains and the transition to ecosystem orchestrators.

China is perhaps the country where this shift to ecosystems is most advanced today – and where the impact on traditional financial institutions has been most apparent. In two short years (from 2013 to 2015), digital attackers have made tremendous leaps in capturing share of many common financial products and services. For instance, their share of payments grew from 24 to 52 percent, unsecured loan balances from 1 to 25 per cent, and mutual fund sales from zero to 12 percent.

In an era of digital ecosystems, cooperative banks therefore will need to zealously guard against disaggregation by competitors, disintermediation (where they cede member relationships to other players), and commoditization (where they become the back office for financial services provided by others).

3. New talent and organizational capabilities are required to win

Traditional organization models for cooperatives are increasingly challenged in a digital era. Cooperatives lack the flexibility, speed, and comfort with rapid experimentation and failure that many attackers possess. Given the values that many cooperative banks share with their employees, there is often a laudable reluctance to make the kinds of dramatic personnel changes other industries have adopted to respond to digital pressures.

However, this cooperative "social contract" can only work if the institutions are willing to invest heavily and aggressively in reskilling their existing employees and bringing in targeted new talent and capabilities as they move forward. This means introducing concepts like agility – not only into the technology functions, but also extending them across the enterprise – to improve operating efficiency and accelerate impact. For some cooperative banks, it may also mean taking less traditional approaches to acquire highly paid and scarcer talent (e.g., data scientists) by working with other institutions to create shared centres of excellence.

The competition for talent is not limited to compensation and other material benefits. Increasingly, new and traditional attackers are beginning to adopt the social values that underpin cooperative banks. Fintechs are positioning themselves as force multipliers for social disruption that improves the quality of life for users around the world. Traditional banks are orienting their client and employee marketing messages around shared values. As a result, the space remaining for cooperative banks to differentiate themselves is beginning to feel crowded.

Digital disruption of Canadian Credit Unions

In Canada, credit unions face these same three challenges – and although the scale of disruption has not been as acute as elsewhere, the pace is beginning to accelerate.

Credit union members are demanding digital capabilities

Canada is a paradox. With 70 per cent of the population having access to a smartphone, Canada continues to be one of the most digitally savvy countries in the world. However, at the same time, its digital share of banking revenue – at 19 per cent – is just over half that of the UK (35 per cent) and far behind that of the Netherlands (47 per cent).

The fact that Canadians have been slower to adopt digital in their banking activities is unlikely to be permanent. For instance, although just 33 per cent of Canadians may be willing to switch to a digital-only banking service (given the right value proposition), 52 per cent of Millennials would be willing to make the change.

Credit union members are no exception. Almost half of credit union members report not having visited a branch in the past three months, and mobile use among credit union members has recently overtaken online as the primary interaction channel. The pace at which member expectations will evolve will only continue to accelerate, and Canadian credit unions will need to invest and innovate at scale to meet these shifts.

New attackers and traditional competitors are shaping the ecosystem

The challenge posed by fintechs to cooperative banks globally and in Canada is not going away. Between 2014 and 2015 alone, investments in fintechs more than doubled, from $5.6 billion to $12.2 billion. In Canada, these companies are picking the most profitable parts of the member experience to reimagine – unsecured personal loans, small business activities, payments, and foreign transactions. Although some of these disruptors may seek to displace credit unions, others may become effective partners –in fact, many Canadian credit unions are already establishing partnerships and sharing data. Desjardins Group, for instance, has partnered with other Quebec-based financial institutions to invest in a $75 million venture capital fund for fintechs, Luge Capital. An innovative element of Luge is that fintechs will gain access to investment dollars as well as data from these financial institutions, which will help them to develop their capabilities.

The traditional banking leaders in Canada are also not being complacent. From Scotiabank's digital factory to TD's investments in artificial intelligence capabilities to Royal Bank's launch of Ventures (a new division to drive personal and commercial client acquisition with a suite of new digital capabilities and reimagined client journeys), each of the Big Five are making major investments in extending their digital capabilities and creating ecosystems to serve Canadians better.

In a world of digital ecosystems, only a handful of platforms will be relevant – there are few ecosystems where the third or fourth largest sized players are competitive. As Canada shifts toward this model, Canadian credit unions will need to select world-class partners that can help build compelling ecosystems that deliver superior experiences to their members. Anything less and they will risk the permanent attrition of members to other systems.

Talent is scarce, and only new models of working can mitigate this challenge

Canadian credit unions are competing with firms in virtually every other industry for digital talent. For example, the average salary for a data scientist in Canada is more than $125,000 a year, driven by scarcity and the seemingly insatiable demand from companies like Amazon and Google.

The traditional banks are investing heavily in recruiting and developing digital talent, including by partnering with incubators and creating new digital factories with different dress codes, recruiting practices, and office spaces.

Talent in this field is, as a result, extremely mobile. Canadian credit unions therefore face the dual challenge of first recruiting (or, more arduously, developing internally) this kind of talent and, second, retaining this talent over the long run.

Winning as a digital cooperative bank

Canadian credit unions can pursue six key actions that, when combined, can powerfully unlock their potential.

Meet or exceed members' expectations

A. Use data and analytics to understand members better

Data is at the heart of the digital revolution. As personal contact with members decreases over time, leveraging data-driven insights to anticipate their needs will become increasingly important.

Credit unions have two assets here. First, as financial institutions, they already collect a tremendous amount of data about their members that – when properly structured – can deliver rich insights. Second, as cooperatives, they have the potential to pool data with other institutions, creating scale and more robust analytics to serve their members better.

B. Put members at the centre

Once members' needs and wants are understood, credit unions need to ensure that their products and services are aligned accordingly. For many credit unions, this will involve bringing members in much earlier in the product design phase, testing prototypes, and rapidly piloting (including a/b testing) products and services to understand what resonates the best. Being member-centric also requires credit unions to think about "journeys" – the end-to-end experience that members will go through in acquiring not merely a product or service, but a solution to their problems or needs.

Build the digital cooperative ecosystem

C. Find inspiration globally

Much of the innovation in banking digitally – including in the cooperative banking space – is happening outside Canada. Canadian credit unions have the advantage of studying other markets to understand "where the puck will be" and to position themselves well in advance.

Participating in global conferences, debating global case studies, and visiting cooperative banks in more digitally disrupted economies are all effective approaches to be inspired by the progress made by others.

D. Build world-class partnerships

Strategic partnerships are no longer a luxury. They are a necessity to compete and survive in a digital world. Partnerships enable credit unions to reach scale quickly and efficiently, deploy new capabilities, and convert potential competitors into allies.

With a limited set of resources and management time to invest, Canadian credit unions will need to be highly selective about these partnerships. Few have the scale or luxury of time to pursue a "thousand flowers blooming" strategy. Instead, the most successful approach will likely be focusing on world-class partnerships that can drive disproportionate value.

Create a digital-first organization

E. Develop an agile culture across the enterprise

Digital disruption implies a high degree of ambiguity. A culture that embraces innovation and flexibility is the surest marker of success in this environment.

Agility is traditionally thought of as part of the technology domain – an approach to rapid, client-centred software design. In fact, the true benefits of agility are unlocked only when it is applied across the organization.

Canadian credit unions that make the shift to an enterprise-wide model of agility will find they are better able to break down traditional organizational siloes, get better products and services to their members faster, reduce costs, and improve employee satisfaction, all at the same time. This is due to a culture that prioritizes open communication, joint problem solving, transparency, and accountability, and has a strong focus on outcomes rather than activities.

F. Become a digital talent hub

A digital talent strategy – covering recruiting, developing, and retaining – is critical to the long-term success of credit unions in Canada. A recent survey indicated more than half of "digital" employees will seek employment elsewhere if they feel that their digital skills are underutilized or stagnating.

To retrain existing employees, credit unions will likely need to reimagine their development journeys and to hire new resources. Traditional HR development approaches may be insufficient to create and sustain the kind of talent necessary. For instance, training programs will need to become increasingly case based (and not just academic) and reinforced with iterative "field and forum" sessions over the course of a year or more.

In this respect, credit unions may benefit again from their cooperative roots, designing and delivering talent development programs across multiple institutions.

6 Questions every Canadian credit union should be asking

Canadian credit unions face both a significant threat and a tremendous opportunity from digital disruption. As with cooperative banks around the world, they should be asking themselves six simple questions regularly:

1. How are we using our data – and that of our partners – to better understand the needs, preferences, and aspirations of our members?
2. What are the client journeys that need to be reimagined, and what value can we create for our members by doing so?
3. What lessons are we capturing from the experiences of cooperative banks globally, and how are we applying them in the Canadian context?
4. Who are we partnering with to build scale, improve our relevance, or strengthen our competitive offering to members and prospective members?
5. How are we actively cultivating a culture of enterprise agility?
6. What is our strategy to acquire, develop, and retain world-class digital talent?

June 2018
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