



Summary of the Proceedings

CFCFE Manchester Conference

17th January 2020

CFCFE Credit Union Conference
Meeting the Needs of Members Today and Tomorrow
17 January 2020, Manchester, UK

Summary of Proceedings

By Nick Money

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The Centre for Community Finance Europe (CFCFE). CFCFE is a not-for-profit research organisation incorporated in 2016 in Dublin, Ireland. Its mission is to undertake high quality research, to lead on ideas and innovations, and to explore tested solutions related to credit unions, co-operative banks and similar not-for-profit providers of community-based financial services in Europe.

CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

CFCFE is financially supported by the subscriptions of its members, by donors desiring to support its work, and by project grants from foundations, governmental bodies, and others who commission specific research that is consistent with the Centre's mission and values.

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Acknowledgements. CFCFE would like to thank our members and other attendees for their contributions at the conference, and in particular the speakers, who were Robert McIntosh (Dozens), Marloes Nicholls (Finance Innovation Lab), Drew Povey (Drew Povey Consulting) and Todd Proulx (f64 business services).

Important Announcement Regarding CFCFE. With this publication, CFCFE announces its re-registration in Ireland as a not-for-profit company limited by guarantee. We are also proud to announce the appointment to our Board of Directors on 16 January 2020 of Michael Byrne, CEO of Core Credit Union in Ireland and Caroline Domanski, CEO of No. 1 CopperPot Credit Union in Britain, both of whom are the chief executives of CFCFE Founder Member credit unions and key participants in its creation.

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1. Introduction

This is a summary of the presentations and panel discussions from the CFCFE Credit Union Conference, Meeting the Needs of Members Today and Tomorrow, held on 17th January 2020 at the Manchester Macdonald Hotel, Manchester, United Kingdom.

The purpose of the conference was to address the opportunities and risks that current technology presents for credit unions, in terms of engagement with members (digital community), better sourcing and use of member data (open banking) and modernising the underpinning IT systems. The conference also took a fresh look at leadership.

The conference was attended by 96 delegates from credit unions, trade associations, government bodies, credit union providers, and universities in England, Ireland, Romania, Scotland and the USA.

This summary does not seek to repeat the presentations, but rather to draw out the main headlines from the speakers and the question and answer sessions. The slides from two of the presentations are available on the CFCFE website, together with the conference programme, which includes speaker biographies and an attendee list of organisations (www.cfcfe.eu/events).

2. **Welcome**, Dr Paul A. Jones, Reader in the Social Economy at the Research Unit for Financial Inclusion at Liverpool John Moores University¹ and Director of Research at CFCFE

Paul welcomed attendees to the conference noting that this was the third conference convened by CFCFE, and that he was delighted to see the number and geographic range of organisations represented. Paul thanked CFCFE's corporate members for their continued financial support.

He introduced the theme of the conference "Meeting the Needs of Members Today and Tomorrow" and outlined that, in one way or another, all the speakers were focusing on this central theme, either by developing effective leadership at all levels throughout the credit union or by introducing modern technology to serve member needs in a digital age.

¹ <https://www.ljmu.ac.uk/research/centres-and-institutes/research-unit-for-financial-inclusion>

3. Leadership in a new landscape, Drew Povey, Drew Povey Consulting²

The community finance sector relies heavily on the quality of its leaders, so in planning the conference CFCFE wanted to provide an opportunity for focus on leadership development. Drew Povey is a former head teacher and elite sports coach who now works with organisations to develop leadership. Drew's energetic and engaging presentation was built around the principle that leadership is not about a position in a hierarchy, but is instead the ability to influence people effectively. He looked at the examples of some very well-known brands (Apple, Lego, Marvel and Starbucks) to show how leaders had taken considerable risk to take their organisations from close to ruin to dominant positions in their markets.

Drew quoted Eric Shinseki to illustrate his belief that people and organisations have to be prepared to change: "If you don't like change, you will like irrelevance even less." But change takes courage to effect, and Drew talked about a number of features of courage in leadership. He suggested that maybe only 10% of leadership is taking the initial hard decisions, while the remaining 90% is the ability to stay the course when things get tough. He emphasised resilience as a critical factor in leadership.



In order to lead change effectively, Drew proposed that we need to understand three things in particular: ourselves, our organisation (including its values), and the external environment.

Drew concluded that "courage is a team sport" so leaders should get good people around them. He encouraged us all to remember that leadership "is not something other people do" but something we can all achieve.

² <https://drewpovey.com>

4. Creating a community in the digital age, Rob McIntosh, Community Lead, Dozens³

Rob McIntosh, now at a new organisation called Dozens, has experience of building community in a range of settings, starting with The Wine Society⁴, an online co-operative business where members recommend wines to each other, without control by The Wine Society itself. Rob explained that Dozens believes that many banks seek to keep people borrowing in order to make profits from them, while the credit union business model is focused on helping people save and grow their money.



A key part of the Dozens approach is to create a community of customers, who can engage with each other as well as the business. Dozens believes that customers should feel that they are part of a mission, and that they are going on a journey with other customers like them. They can be as involved as they want, but they need to know that they are helping to make it happen.

Rob noted that other organisations already do something like this, such as Lego, which creates forums for its enthusiastic customers to offer product ideas and feedback.

Rob explained that community is not the same as identity. So it is not enough to share geographical location with someone to mean that you are in community with them. In his mind, community requires a shared purpose or mission – ‘a task’ – so a credit union’s common bond is a starting point but not sufficient.

Rob talked about creating and using ‘super-fans’ (and credit unions have long known the value of word of mouth advocacy). Producing and retaining fans requires permanence – ongoing not ad hoc engagement. It also requires a reason to interact, something to do, like the Lego example of suggestions. But we must also remember that people do not necessarily want to talk about our organisation or “how does my loan work?”.

³ www.dozens.com

⁴ <https://www.thewinesociety.com/>

Rob advised that creating a space for community interaction does not require massive investment in IT, but can be facilitated by setting up a discussion forum on the credit union's website. Rob was asked whether this could be a Facebook page instead. His response was to query why a credit union would want to depend on a third party for what it could do itself.

5. Risks and opportunities from open banking, Marloes Nicholls, Head of Programmes, Finance Innovation Lab⁵

Marloes Nicholls introduced the Finance Innovation Lab, which seeks to incubate the people, ideas and movements building a financial system that serves people and planet. The Lab works with innovators developing new business models, campaigners calling for change in the rules of the game, and mainstream professionals who want to change finance from the inside.

In this presentation, Marloes outlined how Open Banking (OB) in the UK⁶ works and considered its potential applications. OB requires the nine biggest banks and building societies to make it possible for customers to share their data with regulated third parties. To explain the concept, Marloes used the metaphor of a restaurant. OB can be seen as a waiter, whom you ask for the food (data) you want from a menu (of data types / institutions) and the waiter then goes to the kitchen (banks) to order it.

Marloes noted that while many consumers remain unaware of OB, there are now 180 organisations with regulatory permission to offer some form of OB service. These range from banks such as HSBC and Barclays to service providers such as Wagestream. Marloes offered a rough estimate that 10% of British credit unions are using OB in some form. For example, Police Credit Union is working with Credit Kudos, and Central Liverpool Credit Union is working with NestEgg⁷.

Marloes identified several opportunities for credit unions arising from OB's enhanced data access: support for affordability checks, improved credit risk assessments, reduced time and cost involved with lending, a greater understanding of members' financial health that in turn would enable tailored payments and savings products.

⁵ <http://financeinnovationlab.org>

⁶ In the Republic of Ireland, there is slower development of an equivalent set of services based on the EU's Payment Services Directive (PSD) II. This was touched on in the Q&A. CFCFE will ensure that a view on this issue from an Irish credit union perspective is published in the first half of 2020.

⁷ <https://policecu.co.uk>, <https://www.creditkudos.com/>, <https://centralcu.co.uk/>, <https://nestegg.ai/>

However, there are corresponding risks. Marloes highlighted underwriting errors from faulty data, financial and digital exclusion (if a consumer does not have a bank account, there will be no banking data on that individual to share, so they will be excluded from OB benefits and / or seen as higher risk), greater digitisation and automation leading to further distancing of the credit union from the member, complexity and confusion for members and credit unions, exploitation if personal data is not treated respectfully and with informed consent, and public mistrust if the technology fails or there is a mis-use scandal.

Marloes noted that OB presents many opportunities for collaboration between credit unions, and she personally would be keen to work with credit unions to explore the full potential of OB for the movement. Marloes' OB analysis will be published shortly, in partnership with CFCFE.



6. Developing a fit for purpose IT system, Todd Proulx, Principal, f64 business services

Todd Proulx outlined his extensive experience of IT solutions in the credit union sector in the USA, and his recent engagement with Irish credit unions. Todd noted that core IT system replacement, the focus of his presentation, is a very significant project for credit unions, but because there have been so many of these in the US (over 600 in the last five years) there is now increasing competence at core system conversions. For most core processor businesses, the overwhelming majority of their clients come by successfully converting them from another provider's system.

Todd described the drivers that push credit unions to recognise that the replacement of a core system is necessary.

First, when it is clear that the existing system is now in 'maintenance mode', i.e. there is no strategic development, and probably compliance-only upgrades, this can be a signal that it is time to change core system.

The second driver relates to functionality – when the current system can't do what is required by newer credit union products and services, for example offer lines of revolving credit, or interface effectively with a mobile app.

Third is the challenge of integration with other required IT solutions. Increasingly today, no single system can be the best at everything. A core system must therefore be able to easily connect with specialist providers who can focus on creating high quality add-ons for specific functions (such as loan origination, financial analytics, mobile/Internet banking, etc.). Finally, Todd drew attention to the risks arising from poor or limited support, which may by itself be sufficient reason to change systems.

He advised that, notwithstanding these drivers for change, credit unions should think hard about the impact of conversion to a new core on their processes and people. With regard to staff, Todd observed that the credit union should at all times keep the primacy of serving members and maximising their financial benefit as its top priority, even if doing so efficiently with new technology means that some staff are no longer needed.



Todd described some of the features of modern credit union service delivery in USA. These include fast and personalised lending decisions, as well as branches that are more like the ‘third space’ between home and work that Drew described for the Starbucks recovery strategy in the late 2000s⁸.

Todd offered some observations on selecting a new core system. He warned attendees to be wary of banking solutions. Bank operations are product-centric not customer-centric, so their systems often do not cope well with a member-oriented business model. He noted that solutions from big companies come with the advantages of stability, but also generally a shareholder value priority that does not always work well for customers.

Conversely, smaller companies carry more risk in terms of commercial sustainability, but might be closer and more dedicated to customer need. CUSOs (credit union service organisations – numerous in USA) could be the most focused on their customers, but they sometimes suffer from challenges in getting to agreement on priorities.

⁸ The ‘third place’ is a sociology-inspired concept, referring to another place outside the home and work that people can gather and build a sense of community. Starbucks CEO Howard Schultz used the concept as a cornerstone in the creation of Starbucks' image of a coffee chain where people are willing to pay a bit more for coffee because of the cachet and potential connection that comes with the purchase.

Todd's final words were to "communicate, communicate, communicate and then communicate more" to both members and staff when making a core conversion, to make that challenging transition as positive a journey as possible.

7. 'Over to you': reflections

Ralph Swoboda (CFCFE's chair) facilitated a Q&A session with a panel comprising Rob McIntosh, Marloes Nicholls and Todd Proulx. Insights that arose from the discussion included the following:

IT / core systems

- How can a small credit union without internal IT experts properly assess solutions? Todd advised that a credit union can follow the disciplines of effective vendor selection, which do not require technical expertise.⁹ The possibility of forming an IT CUSO for this purpose was also suggested, where the costs of IT expertise can be shared.
- Ralph observed that considerable volumes of paper are generated by Irish and British credit union core systems. This entails labour intensive handling and physical storage, a burden that is both environmentally unsound and costly. North American credit unions have discovered this needless inefficiency can be virtually eliminated by modern "paperless office" and digital signature core systems. As an added benefit, eliminating paper improves the member experience (no more waiting while paper is being printed solely for the credit union's filing cabinet).
- Todd followed up by emphasising that this is one of the reasons why efficient new technology should enable credit union staff to spend more time with members, not less.

Community

- An attendee observed that the concept of a 'super-fan' is potentially very powerful for credit unions, and a real opportunity.
- Marloes commented that credit unions can "do democracy" and can respond to members with more integrity than Monzo and other fintechs.

⁹ As a result of this question, and subsequent feedback from several attendees, CFCFE will be producing a paper on methods and processes for IT procurement

- Rob noted that The Wine Society's success is due to the members' greater responsiveness to other members' opinions and information than company marketing.
- In response to a previous comment from Rob, an attendee agreed that credit unions could learn a lot about community from organisations outside the finance sector, particularly in healthcare and charities, since they have active communities for patients and families as well.

Open banking

- Marloes was asked whether the overall outcomes of OB are being monitored, and she advised that they are not: it had been assumed that because OB was introduced to foster competition this would then inevitably lead to better consumer outcomes. A body called the Open Banking Implementation Entity is currently monitoring the number of market participants, but not outcomes.
- Another question came from the floor asking whether there are published specifications for Open Banking and whether any of the companies that provide OB services in the UK also operate in Ireland.

At Ralph's invitation, Seamus Newcombe (CEO of Payac Services CLG, the Ireland payments CUSO) answered by stating that the European Banking Authority has published Regulatory Technical Standards (RTS) to which payment service providers and other OB intermediaries are required to adhere. The RTS cover OB data security requirements, the legal responsibilities of the parties and the rules governing transfer of data amongst them. Given these uniform standards throughout the EU, there are numerous UK and EU companies that are operating in Ireland or have engaged with Irish payment service providers.

- Brian Corr, Head of Credit Union Policy at the Department of Finance¹⁰ in Ireland, advised that in Ireland at the present time data flows would be in one direction only, i.e. credit unions would be able to access their members' data in banks through open banking but would not be required to make their member data available to banks.

General

- An attendee commented that it was reassuring to hear that other credit unions are worrying about the same issues as they are, indicating that their concerns are the right ones.

¹⁰ <https://www.gov.ie/en/organisation/departments-of-finance/>

- Dr Iulia Pasa, Director of Supervision at UNCAR, the largest credit union trade body in Romania, observed that while credit unions in Britain and Ireland have different regulations, different products, and different technologies from Romania, we are in fact facing the same challenges as credit unions in her country. And the solutions are not only about money. Mostly they are about credit union people focusing on better serving the needs of members, such as through financial education, exploring how younger generations behave, and automating and speeding up processes, all while caring and showing empathy.

Ralph closed the panel session by observing that in his many years of working with credit unions, his experience was that the successful ones tended to be led by special people.

8. Summary and conclusions, Dr Paul A. Jones

Bringing the conference to a close, Paul identified several key points that had emerged from the day.

- The importance of leadership within the sector. He said that wherever credit unions succeed, there are always people with effective leadership skills driving those credit unions forward. This leadership needs to come from the top, from CEOs and board members, but as Drew made clear, it also needs to come from everyone in the organisation. Leadership, as Drew stressed, is influence, and everyone has a role to play in influencing others to create a sustainable, relevant and member-focused financial co-operative.
- The importance of technology. Paul stressed that if success is based on leadership, it is also based, in the modern digital age, on technology, not just to deliver products and services as expected in the 21st century, but, as Rob emphasised, to build community and relationships between the members. Technology must now be at the forefront of the way in which all our credit unions do business.

Paul ended by thanking all participants for coming to the conference and making the day such a success, and said he hoped to see them again at the next CFCFE conference on 22nd May 2020 in Dublin.

Membership of the Centre for Community Finance Europe

* Denotes Founding Member - these organisations supported the inauguration of CFCFE in 2017

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