pocketnest

The Saving Grace of Fintech: How Credit Unions Will Outlast COVID-19

INTRODUCTION

The “Great Shutdown” is forcing people and businesses into an “unnatural cash crunch”[1].

COVID-19 has taken a financial toll on more than three out of every five adults in the U.S.[2,3]. In fact, 45 percent of people are struggling to make their rent or mortgage payments,[4] 23 percent say they have or will soon miss a bill payment[5], 56 percent of people are concerned they will not be able to feed themselves and their families[6,7], and more than a 25 percent say that they have stopped or decreased retirement savings[8,9,10].

In April 2020, the U.S. personal savings rate reached 33 percent, up from 12.7 percent in March, according to the U.S. Bureau of Economics.[1] As Americans saved one third of their take-home pay in April—the most they have ever saved in history—financial institutions are quickly realizing that personal finance and money management are changing. Financial institutions, especially credit unions, must change with the tide.

Along with other financial and wealth management industries, credit unions are beginning to expand their reach to a younger audience. According to a recent Northwest Mutual study, 19 percent of Generation Xers and 22 percent of millennials did not have an advisor before the COVID-19 pandemic, though now seek to find the advice of one[11,12]. The report also found 15 percent of adults over the age of 18 have developed a financial plan since the onset of the pandemic[11,12].

As credit unions continue to navigate their role in supporting their employees, members and communities, the immediate next step is to provide branch safety and security; however, the longer-term solution requires an innovative approach to serving members that relies more on technology than physical presence; and, places the highest priority on customization and individual financial well-being[13].

The financial landscape is changing—even faster with the new threats COVID-19 has brought—and Pocketnest can help credit unions change with it.

Pocketnest, the holistic financial wellness app, was created with credit unions in mind. Pocketnest uses behavioral psychology and science to bring people approachable and user-friendly guidance to create and stick to a financial plan—white-labeled to be in their credit union’s brand. Meanwhile, the app brings credit unions priceless member data helping them to increase lead generation and cross-selling opportunities, while giving their members a better, more innovative experience with their brand. Pocketnest also helps credit unions, and other financial institutions, support their local communities by promoting financial education and wellness.

THE LANDSCAPE IS CHANGING—LITERALLY

The Atlanta Fed's Survey of Business Uncertainty found that "firms are bracing for a huge negative impact on their businesses," with sub zero growth expectations; and, small businesses have taken the greatest hit[14,15,16,17,18]. A Goldman Sachs survey found that 96 percent of small businesses have already been affected by COVID-19. More than half of small businesses (51 percent) will close within three months[19], and more than 60 percent expect to close within the next twelve months—under current conditions[20].

The financial implications of COVID-19 will force credit unions to divert from the pre-COVID path to revenue. Now, credit unions must scale non-interest income, while decreasing non-interest expenditures; and, they must identify new streams of revenue[13].

Banks and credit unions typically generate revenue in two ways, one of which is *net interest margin*. Net interest margin is revenue generated from the combination of yield assets, investments loans and the cost of funds. However, in 2019, US commercial banks saw a reduction of $1 billion in net interest income, accounting for a 10 bps decline in net interest margins; in 2020, rate cuts are continuing their severity[21].

According to Charley McQueen, president, McQueen Financial Advisors, "Margin pressure is going to be here for a long time." He further explains that his firm projects all US Treasury interest rates and federal funds rates to be low for five more years, at least; and, following suit, the Federal Reserve projects low interest rates for the next two years. "Therefore, we need to develop additional sources of non-interest income to fill in the hit to the margin."

The second way credit unions generate revenue is from *non-interest income*. Non-interest income consists of fees credit unions charge its members for services, such as overdraft fees. However, banks and credit unions such as PNC Bank, Bank of America, Wells Fargo, USAA, CitiBank[22], SAFE Federal Credit Union[23], and others have eliminated or refunded these fees, by individual customer request, to help combat financial strain from COVID-19[22].

"With people not spending, COVID affected our short-term income, including our fee income," shared Shawn Ashley, vice president information technology, FinancialEdge Credit Union. "Overdraft fees are a huge income generator, which took a dive, as did interchange on debit at point of sale and ATMs."

While credit unions are decreasing their non-interest income from overdraft fees, they are still generating *some* non-interest income from financial solution fees for offerings including mortgages, auto loans, and broker dealer, and wealth services. In the first quarter of 2020, total loan originations increased 42.7 percent, first mortgage originations increased more than 200 percent, and car and other non-real estate loan originations increased 15 percent for the top 10 credit unions in the U.S.[24].

Angelo Fanaras, vice president chief information officer, Public Service Credit Union has a goal of diversifying his credit union's non-interest revenue opportunities. The team is focused on promoting debit card usage, mortgages, commercial lending, and other secondary products, such as GAP insurance.

Similarly, Benjamin Maxim, AVP digital strategy and innovation shares MSU Federal Credit Union's path to increasing non-interest revenue includes boosting their card products' value. The credit union recently launched a Signature Visa card with better rewards, as well as new security features, travel features, and fintech offerings to encourage members to make their card more top of wallet.

Despite their ability to earn non-interest income from financial solution fees, credit unions and retail banks are not dodging the negative impacts of COVID-19. Overhead costs to service such solution fees, such as extended branch hours and staffing, which consists of 51.4 percent of credit union's total operating expenses, impact their non-interest income[25]. Office space also incurs incredible cost. New Jersey-based Valley Bank pays an estimated $9.2 million in annual rent for a single office in New York City[27]; the bank expects to cut office space by 20 percent[27]. As a result of these compounding factors, an analysis of early Call Reports from 10 large U.S. credit unions—totaling $142.8 billion in assets and 10 million members from Seattle to Long Island—found a net income decrease of 69.2 percent in the first quarter of 2020[24]. Morgan Stanley analysts predict that Wells Fargo, the largest retail bank in the U.S., could close 10 percent of its branches[27].

Earning 69.2 percent less revenue[24]—albeit only in the first quarter of 2020, and unknown for the foreseeable future—credit unions are exploring different service hours and staffing models.

"We have made a lot of changes, but it's difficult to say what ones will be 'short-term' and what will be our new way of doing business or serving our members," said Jackie Buchanan, president and CEO, Genisys Credit Union. Buchanan explains that the vast majority of their support team members are working from home, with no clear return date. However, she shares that the credit union has wanted to provide more flexible working arrangements, and that COVID-19 accelerated their plan.

Ashley of FinancialEdge Credit Union shares that his credit union was prepared for the work from home arrangement, with a VPN set up to allow the call center and lending staff to continue operations from home. "Internally, we had to keep tellers. We had to cut back their hours to meet our rotation requirements, though drive-thru traffic picked up. As of June 28, we've been back in with our lobby doors open, though people aren't coming in as they were before."

Not all credit unions were focused on implementing flexible work arrangements pre-COVID. Fanaras of Public Service Credit Union explains that his credit union quickly morphed from working from home as an alternative for disaster recovery to normal—though this disruption wasn't easy. "The department was not prepared to have 40 people working from home all at once. We struggled at first, but ultimately managed to accomplish this task."

Flexible work arrangements present their own set of obstacles and requirements, especially as it relates to customer service and operations. "We will focus on increasing digital engagement, supporting our members' financial wellness and providing additional self-service features," explains Maxim of MSU Federal Credit Union. "We are also focusing on automation to help support our employees to gain operational efficiency."

To increase revenue while either reducing or maintaining overhead, financial institutions cannot rely on pre-COVID-19 tactics, such as requiring in-person visits to close cross-sales. Instead, they face the challenge of identifying more cross-sale opportunities from digital methods.

"In order to serve the members it's not just about what we offer in the branch," explains Ashley. "We recognized that, regardless of COVID, we have to be on a path to promote remote tools to our members. We see technology as a way to keep people with our credit union."

THE USE—OR, REQUIREMENT—OF TECHNOLOGY

Consumers' banking preferences are rapidly evolving—and shifting in favor of digital client services.

From December 2019 to April 2020, the initial onset of COVID-19, credit union branch closures led to a 33 percent increase in call volumes and a 300 percent increase in wait times between December 2019 and April 2020[28].

Potentially as a result of institutional changes COVID-19 created, nearly 20 percent of customers McKinsey & Company surveyed expect to increase their use of digital channels once COVID-19 has passed[28].

UBS reported that client log-ins for its Americas wealth management business increased 26 percent in March 2020, compared to December 2019[29]. And, financial advisers report a 66 percent increase in mobile (SMS) communication with clients[30].

Even before the threat of COVID-19, some institutions saw technology and innovation as an imminent need.

"With 41 percent of our members living more than 30 miles from the branch, and approximately 80,000 of them interacting with us exclusively via digital channels, we've known digital innovation and tech are vital to our success," said Maxim of MSU Federal Credit Union.

Maxim's credit union has a history of embracing technology, as evidenced by its robust IT and in-house software development team, creating its own digital platforms, including online banking, websites, mobile banking, and digital self-service and engagement. And, with the credit union's recent launch of its innovation center, The Lab at MSUFCU, Maxim's team has further committed themselves to the exploration of technology for the benefit of their members and employees.

This trend of increased digital preference could accelerate at the rate of three years' increase in 2020, alone[31]. In some markets, this digital preference could incite the closure of 25 percent of existing branches; and, digital sales and servicing could handle 35 percent of complex needs remotely[32].

Fanaras of Public Service Credit Union explains that, pre-COVID, emerging technology and innovation was on the credit union's radar, but not in the immediate business plan. "COVID accelerated our plans. We were initially looking at a phased approach, but now we're launching multiple big tech initiatives all at once."

Despite the fact that the credit union has not recouped the financial losses that COVID incurred, Fanaras explains how they are investing heavily in technology. "Even though we don't have the revenue we usually have, we're investing in what we know will help us not only recoup our losses, but grow."

Similarly, Ashley of FinancialEdge Credit Union shares that COVID-19 accelerated some of his institution's strategic plans that were three to five years out, but now are going to happen within the next year or so.

McKinsey & Company cites three main proof points to financial institutions determining if they are ready for the digital acceleration:

1) Can you rethink revenue drivers to deliver above-market growth, both organically and inorganically?
2) Have you transformed your approach to credit risk and customer assistance adequately to the new environment?
3) Can you maintain and reinforce the rapid pace of decision-making established during the crisis to continue making the right decisions faster?[32]

In 2019, before the threat of COVID-19 surged, the top 10 banks in developed markets found 80 percent of their customers were digitally active—60 percent on mobile apps[33]. In 2020, during the pandemic, digital banking is continuing to surge. Digital banks Chime and Stash saw record signups in April 2020, and Chime continues to see "some of the highest number of new account openings"[34]. Ira Robbins, chief executive of New Jersey-based Valley Bank has seen 170 percent quarter-over-quarter growth in new online banking registrants, and therefore, anticipates some branches to disappear[27].

Ashley of FinancialEdge Credit Union explains that, in order to survive, innovation and quick implementation must be at the forefront of a credit union's strategic planning. "These are just things you have to do to survive now, including accelerating your strategic planning."

Unlike many credit unions, FinancialEdge was prepared for the quick implementation of new tech, as the credit union has been aligned with this mission far before COVID-19. "We were ready for it, but we didn't really realize we were ready for it," Ashley explains. "We recognized that, regardless of COVID, we have to be on a path to promote remote tools to our members. Being able to get loans, deposit checks, and so forth—remotely—is crucial to survival."

The question remains: what will solve the evolving need for tech and innovation?

FINTECH ENTERS THE EQUATION (AGAIN)

Some experts expect the financial impact of COVID-19 to put to test robo advisors, otherwise known as "online portfolio management solution[s] that aim to invest client assets by automating client advisory . . . that [don't] require a deep financial background"[36], such as Wealthfront and Betterment[31].

Nimble, responsive and digitally-focused fintech companies like Wealthfront and Betterment, the leading digital advice firms, reported double-digit percent increases in account sign-ups[31]. Meanwhile, an American Banker survey of more than 300 financial services professionals found that approximately 75 percent of wealth advisors report revenue declines, and 84 percent are experiencing negative impacts due to COVID-19[37,38].

As with any product, the more nimble and technologically-advanced option will win the race to the market share—especially that of personal finance customers. As consumers face continued financial hardship, fintech brands present a viable opportunity for developing comprehensive, turnkey financial solutions that larger entities with big overhead and reliance on in-person contractions. Marlin & Associates postures that the "pandemic could be the driver of scalable, integrated digital wealth platforms, opening new markets and rendering old business models obsolete"[31].

As evidenced by Franklin Templeton's purchase of AdvisorEngine and SS&C's acquisition of Innovest Systems, the WealthTech sector continues to show promise[31].

"Whatever used to be normal is not anymore," explains Fanaras of Public Service Credit Union. "Even when COVID goes away, people have already gotten a glimpse of how things can work, and they'll continue to expect these things."

Further, Maxim of MSU Federal Credit Union explains, "We have been given a great opportunity to try new things in digital that were previously 'nice-to-haves' that have quickly become 'must-haves' and expectations from our members."

Top credit union leaders, including CUNA Senior Economist Jordan van Rijn, Shawn Ashley of FinancialEdge Credit Union, Jackie Buchanan of Genisys Credit Union, Angelo Fanaras of Public Service Credit Union, and Benjamin Maxim of MSU Federal Credit Union, provide credit unions with guidance to navigate their way out of the financial turbulence COVID-19 has brought in its wake: communicate regularly with members, employees, and the board; consider how to support members; consider how to support employees; reconsider the strategic plan; forecast different scenarios for the credit union's financials; and, review the credit union's mission and vision statements[39]. Fintech may present solutions to each of these strategic guideposts[40].

Regular communication. The digital nature of fintech, particularly Pocketnest, ensures members are consistently up-to-date with their financial planning, using phone notifications, email and text messaging reminders and in-app completion timelines and reminders; meanwhile, member data is shared back with their corresponding institution, allowing the institution a bigger picture of the member's financial wellbeing and prospective needs.

Member support. Pocketnest provides users with comprehensive financial planning support in the form of free, approachable and user-friendly guidance, accessible from their phone. Using Pocketnest, users can create—and stick to—a flexible and adaptive financial plan that's unique to their lifestyle.

Employee support. Pocketnest provides credit union employees with key data to help inform their customer relations and cross-selling opportunities. Using member data, Pocketnest identifies opportunities for credit union employees and financial managers to provide further financial assistance, such as identifying life insurance, auto loan or mortgage needs. Likewise, Pocketnest is available as an employee wellness tool, where employees can personally benefit from the app's comprehensive financial planning offerings.

Strategic plan reconstruction. Pocketnest allows credit unions to reconfigure their strategic models, putting innovation, technology and customer service at the forefront of their business model. It also helps guide credit unions to service the whole customer, placing the highest priority on customization and individual financial well-being, particular concepts members have requested of their financial institutions[13].

Forecasting scenarios for financials. It is evident that the financial implications of COVID-19 force credit unions to divert from the pre-COVID path to revenue. Now, credit unions must scale non-interest income, while decreasing non-interest expenditures; and, they must identify new streams of revenue[13]. Using member data to help identify cross-sell opportunities, credit unions may be able to better forecast revenue, while also securing additional revenue otherwise untapped.

Buchanan of Genisys Credit Union emphasizes the importance of innovation, explaining, **"**We need to offer solutions that our members don't know they need, before they need them; and then, those solutions need to be 'can't live without' everyday utilities."

CONCLUSION

Credit unions were developed to service communities, and ultimately, provide people with credit. Over time, however, access to responsible and affordable credit waned; and, the broader need for greater financial support, such as savings, insurance coverage, investment and wealth management, and more increased[41]. The financial impact of COVID-19 could bring the credit union industry back to its early 20th century roots, where they existed to serve as trusted financial partners to their members, servicing all of their financial needs[41].

As credit unions identify future revenue streams and develop digital solutions, it is imperative they acknowledge their members' needs, recognize their economic hardship, and above all, provide comprehensive financial well-being without necessitating physical presence at the institution[13].

The financial landscape is changing—even faster with the new threats COVID-19 has brought. As consumers come to expect more turnkey, efficient and digital solutions at their fingertips—and, as credit unions increasingly require bigger, more diversified revenue streams—the market is ripe for a fintech disruption.

“Don’t be afraid to take mitigated risks that allow for innovation,” says Maxim of MSU Federal Credit Union.

Fintech offers a unique advantage: innovative technology that promotes interaction, communication, engagement, and most of all, scalable growth. The industry is certainly aware of the threat—or customer opportunity—that fintech presents. While branches see little traffic, banks continue to keep their brick and mortar spaces open to maintain a physical presence to distinguish themselves from their new fintech rivals[27].

Pocketnest, the holistic financial wellness app, was created with credit unions in mind. Pocketnest uses behavioral psychology and science to bring people approachable and user-friendly guidance to create and stick to a financial plan—white-labeled to be in their credit union’s brand. Meanwhile, the app brings credit unions priceless member data helping them to increase lead generation and cross-selling opportunities, while giving their members a better, more innovative experience with their brand.

Pocketnest can help credit unions increase member engagement, grow assets, and retain staff—all while increasing revenue. And, it can support the strategic guideposts CUNA Senior Economist Jordan van Rijn shares, and other top credit union officials—including Shawn Ashley, Jackie Buchanan, Angelo Fanaras, and Benjamin Maxim—echo: regular and timely communication with members, employees, and the board; enhanced member and employee support; a reconfigured strategic plan; and forecasting different scenarios for financials[39]. Most of all, it provides credit unions with digital member engagement when they need it most.

“Mortgage gain on sale revenue is super high today, as everyone can refinance; however, eventually, that boom will be over,” said McQueen of McQueen Financial Advisors. “Pocketnest provides a great long-term revenue stream and member engagement to ensure long-term success.”

As the world continues to change—rapidly—credit unions are in a unique position to either adapt or sink. Now, more than ever, credit unions should consider taking a deeper dive into fintech and invest in technology and innovation that provides services extending beyond simple transactional tools, such as mobile deposit and peer-to-peer payments. The time is ripe for disruption; it's time credit unions leverage fintech for the potential game-changing growth and deep community engagement it represents.

"We see innovation as core to our member and revenue growth. Technology will be the one way to move forward. Tech is our future," said Fanaras of Public Service Credit Union.

REFERENCES

[1] https://www.wsj.com/articles/less-stimulus-more-overdraft-protection-11585262468
[2] https://thefinancialbrand.com/94831/coronavirus-covid-19-loan-credit-layoff-furlough-relief/
[3] https://content.transunion.com/v/financial-hardship-report-us-week-five
[4] https://www.freedomdebtrelief.com/newsroom/covid-19-pandemic-strikes-at-americans-financial-health
[5] https://theharrispoll.com/wp-content/uploads/2020/04/Wave-2-8_tabs_updated.pdf
[6] https://www.freedomdebtrelief.com/newsroom/covid-19-pandemic-strikes-at-americans-financial-health
[7] https://content.transunion.com/v/financial-hardship-report-us-week-five
[8] https://theharrispoll.com/wp-content/uploads/2020/04/Wave-2-8_tabs_updated.pdf
[9] https://www.stlouisfed.org/open-vault/2020/april/retirement-savings-secure-act
[10] https://theharrispoll.com/wp-content/uploads/2020/04/Wave-2-3_tabs_updated-1.pdf
[11] https://news.northwesternmutual.com/planning-and-progress-2020
[12] https://www.fa-mag.com/news/crisis-causing-more-young-adults-to-seek-out-financial-advisors-56198.html
[13] https://p.widencdn.net/ctwfmm/504_Special-Report-Credit-Unions-and-the-Coronavirus
[14] https://www.frbatlanta.org/blogs/macroblog/2020/03/23/american-firms-foresee-a-huge-negative-impact-Of-the-coronavirus
[15] http://www.minneapolisfed.org/article/2020/covid-19-and-the-ninth-district-a-shocked-response
[16] https://bfi.uchicago.edu/working-paper/how-are-small-businesses-adjusting-to-covid-19-early-evidence-from-a-survey/
[17] https://bfi.uchicago.edu/working-paper/how-are-small-businesses-adjusting-to-covid-19-early-evidence-from-a-survey/
[18] https://www.pymnts.com/coronavirus/2020/what-covid-19-is-doing-to-main-street-businesses/
[19] https://www.goldmansachs.com/citizenship/10000-small-businesses/US/no-time-to-waste/index.html
[20] https://theharrispoll.com/americas-economic-engine-an-examination-of-small-businesses-during-covid-19/

pocketnest

[21]https://www.pwc.com/us/en/library/covid-19/coronavirus-impacts-retail-banking.html
[22]https://money.usnews.com/banking/articles/these-banks-are-waiving-overdraft-fees-because-of-the-coronavirus
[23]https://www.safefed.org/safes-coronavirus-covid-19-response
[24]https://www.cutimes.com/2020/05/01/income-drops-among-some-large-credit-unions-in-q1/?slreturn=20200530191156
[25]https://www.creditunions.com/blogs/industry-insights/retail-delivery-grew-in-2019-and-must-adapt-in-2020/
[27]https://www.crainsnewyork.com/commercial-real-estate/banks-close-branches-and-reduce-office-space-revenue-falls
[28]https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Reshaping%20retail%20banking%20for%20the%20next%20normal/reshaping-retail-banking.pdf
[29]https://www.ubs.com/global/en/investor-relations/financial-information/quarterly-reporting.html
[30]https://www.marlinllc.com/newsletters/assets/media/2020/06/Marlin-Associates-WealthTech-COVID-19-Update-June-2020-.pdf
[31]https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Navigating%20the%20coronavirus%20crisis%20collected%20works/Jumpstarting-the-recovery-collection.pdf
[32]https://www.mckinsey.com/industries/financial-services/our-insights/reshaping-retail-banking-for-the-next-normal?cid=other-eml-alt-mip-mck&hlkid=985e1b0e260f4a1a863fc2e719414ab5&hctky=10010185&hdpid=358b1c34-e225-46db-ac0c-d3eae799385c#
[33]http://www.finalta-global.com/benchmarks/digital-and-multichannel-banking.aspx (2019)
[34]https://www.cnbc.com/2020/05/27/coronavirus-crisis-mobile-banking-surge-is-a-shift-likely-to-stick.html
[35]https://www.euromoney.com/article/b1lhggklb7jbkw/how-fintech-can-save-us-from-covid-19
[36]https://www2.deloitte.com/content/dam/Deloitte/de/Documents/financial-services/Deloitte-Robo-safe.pdf
[37]https://www.americanbanker.com/news/subscriber-exclusive-survey-how-the-banking-industry-is-responding-to-coronavirus
[38]https://www.financial-planning.com/news/financial-advisors-revenue-takes-beating-from-coronavirus-its-going-to-hurt
[39]https://www.cuna.org/COVID19/Resources/
[40]https://www.bbva.com/en/banks-and-fintech-agents-of-change-in-the-post-covid-19-innovation-system/
[41]https://p.widencdn.net/bmrydn/506_Credit-Unions-and-the-Coronavirus-Special-Report-Part-2