

IDEAS AREN'T ENOUGH:
**Does Your Credit Union Practice
Executable Innovation?**

SETTING THE STAGE FOR INNOVATION

The landscape for Canadian businesses is evolving rapidly, driven in large part by technological advances and consumers' growing demands for new options. From touch ID and voice commands to blockchain and digital currencies, the pace of change in the financial services industry has accelerated, introducing both more choice for consumers and more complexity for all businesses, including financial institutions and credit unions.

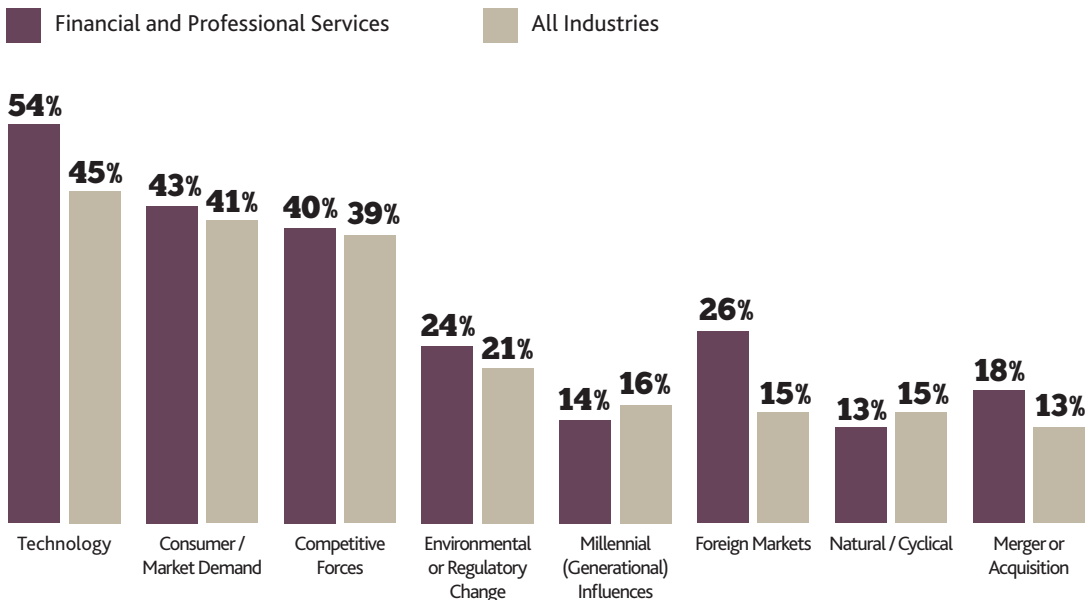
The speed, scope and power of new technologies are improving how and what financial services are doing, making transformation a critical component to meet market demand and stay competitive. The status quo is clearly unsustainable and Canadian credit unions realize the value of being ahead of change: approximately 92 percent of financial and professional services organization decision makers say they are either undergoing or anticipate a business transformation in the next 12 months, according to MNP's survey: *The Transformation Wave: Change and Technology in Financial and Professional Services*.^{*} That's higher than the national industry average of 84 percent.

In the survey results, 54 percent of leaders said technology was driving change in their organizations and 93 percent indicated that technology advancement was underway at their organization. However, 95 percent said they face barriers to successfully implementing a transformation initiative.

As the results show, credit unions are far from being immune to the wave of innovation and transformation. Many are grappling with understanding what they need to change, how they are going to implement that change and how to make it work for the organization and its members.

DRIVERS OF TRANSFORMATION IN FINANCIAL SERVICES SECTOR

Q: What are the primary external forces behind the business transformation change? (select all)



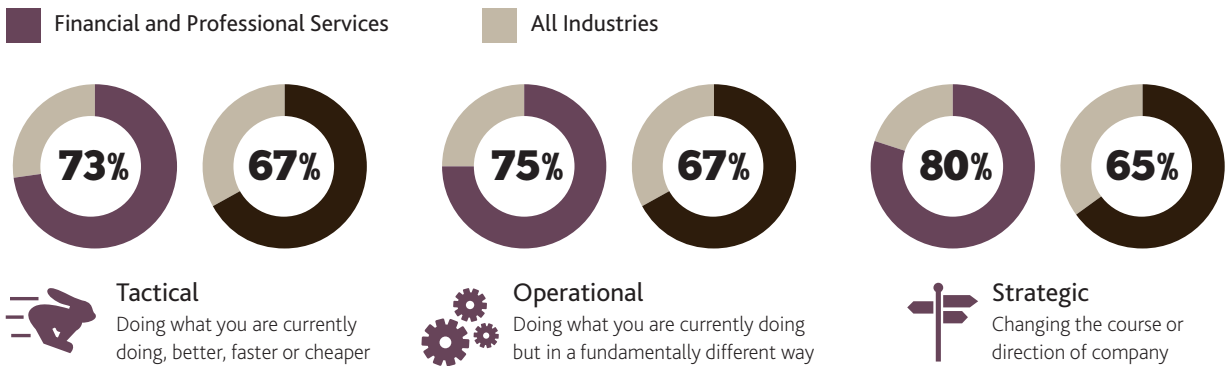
^{*} *The Transformation Wave: Change and Technology in Financial and Professional Services* reflects the opinions of 1,200 Canadian business decision makers polled online by Ipsos, between September 25 and October 4, 2017.

BUILDING BLOCKS OF INNOVATION

Technological innovation is about harnessing available technology appropriately for profitability and meeting consumer needs, in traditional environments and the digital era. While disruptive technology is the impetus for transformation for many organizations, the technologies they are using to facilitate and accelerate transformation are mostly tactical, improving existing products and services; operational, i.e. fundamentally changing the way things are done; and / or strategic, changing the direction of the business, rather than disruptive.

CHANGE IN EVERY WAY

Q: Is your business currently experiencing or anticipating business transformations over the next 12 months? YES

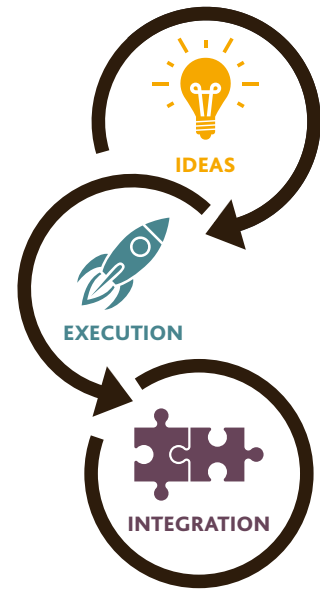


From the MNP survey results, it is clear the majority of Canadian financial and professional services organizations (92 percent) are undergoing at least one type of transformation, while half (54 percent) are undergoing all three types; tactical, operational and strategic. What we can learn is that without effective change, credit unions stand to lose out to the competition. This competition has intensified to include fintechs and growing online options – all which benefit from much more efficient and less costly cloud-based technologies.

BUILDING AN EXECUTABLE INNOVATION FRAMEWORK

To remain relevant, competitive and provide the services members demand, forward-thinking credit unions are actively working towards change, starting with assessing their culture and operations.

Once culture and operations are assessed, an executable innovation framework requires three key functional capabilities to be in place and working together to be successful: generating great ideas, executing the concepts and integrating new ideas with the overall business.



GENERATING GREAT IDEAS

A mature organization is able to look at the landscape where they operate, develop a portfolio of new ideas and approaches and then effectively filter them down to the best options to remain competitive and relative to their users.

Strategy and goal setting - Many falter in bringing innovation to fruition because they don't know what's important to their credit union and to their members. Before adopting a solution, know what the problem is and what you want to achieve.

Analytics and research – By compiling and analyzing data, both organizational and of your members, you can determine what areas of innovation there are, where there are gaps and what are the key areas to invest in.

Idea generation – Take a look at what's happening around you, as an organization and as a member. What are the challenges facing both? What do members want and need? Avoid the trap of only focusing on competitors - learn from other industries.

Screening and prioritization – Filter out what is applicable to your credit union and rate them on a scale of importance to your organization and your members.

Critically, remember ideas take time and are best captured with a stress-free and creative mindset: if the team is occupied with operations during this stage it will be hard to be creative.





EXECUTING THE CONCEPTS

Once you've determined priorities for innovation, you need to be able to go out and execute on them. While there are a number of processes available to enable the delivery of innovation, we find the following components are essential to execution.

Program Management – Overseeing the big picture, which includes a strategic, corporate execution of a number of related projects at the same time (executive driven).

Project Management- Being able to execute against the project with a defined methodology, directing, monitoring and controlling a project from launch to completion (mid-management driven).

Vendor and Partner Management - Need to be able to draw in your vendors and strategic partners to support execution, either by forming joint ventures or service organizations, or through bringing in external consultants or integrators. In the credit union context, it's also about where you use the 'system' nationally or provincially to make that happen.

Development Team Capabilities - Project management capabilities, effective partner relationships and staff on hand to do the programing, development and implementation are key to success in executing innovation.

It is important to first assess your requirements before committing to a process or solution that can support execution. While programs are available to support execution of innovation, technology is the enabler and not the solution to the problem!

CASE STUDY – LARGE CREDIT UNION COALITION (LCUC)

Challenge:

Provide technology leadership and innovation to enrich the financial lives of members and strengthen the competitiveness of Canada's credit unions across the country. Recognizing the collaborative nature of the co-operative system was an advantage, the largest credit unions in Canada banded together to form the Large Credit Union Coalition (LCUC), representing more than 3 million members and \$125 billion in assets.

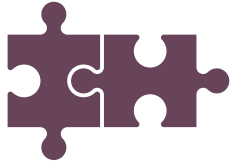
Solution:

The LCUC adopted a strategy to spearhead critical technologies, share knowledge, leverage combined buying power and common units of work, plus adopt and drive standard platforms and architecture. Part of the strategy evolved into an annual Hackathon, where participants build, learn and connect – creating an innovation cycle with benefit to the whole Canadian credit union system.

Results:

Increased opportunities from tapping into the cooperatives' collective knowledge and national presence. The LCUC focuses its energy on areas ranging from artificial intelligence, digital identity, payments modernization and other technology and innovation related areas – that will meet the increasing demands of members.

"We continue to evolve as our members' expectations do," says Drew Wilczynski, Managing Director, Innovation & Collaboration at the LCUC. "We operate within three different modes: Traditional IT, Innovation & Ideation, and Leadership & Advisory, with the Hackathon being a great example of our Innovation & Ideation mode.



INTEGRATION

INTEGRATING NEW IDEAS

Even game-changing capability won't get off the ground if internal and external stakeholders aren't engaged and it isn't integrated into the business in a holistic manner. For example, a credit union may invest heavily in building a new app only to have it languish because neither employees nor members understand, need or use it.

A decade ago, IT departments were technology investments, often without addressing business needs or consumer demands. Such investments tended to be costly and unsuccessful. Currently, a chief operating officer or marketing officer uses a consumer focus to direct technology transformation initiatives, with IT being the enabler rather than the leader. To ensure new technology is integrated and fully adopted throughout the organization, keep these critical areas in mind:

Management control systems – Make sure your organization has the ability to measure the tools being used, how and by whom.

Continuous improvement – Ensure there's a cycle to get feedback and then use the feedback to make iterative changes.

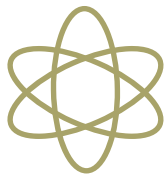
Staff capabilities – Engage, coach and mentor your staff to ensure strong capabilities to take on these new applications.

Member / customer acceptance – Monitor and track user acceptance of the innovation.

While the above areas are critical to integrating new ideas, the most important anchor for success is culture and leadership.

CORNERSTONES OF SUCCESS

Anchoring the functional capabilities of transformative innovation are the functional attributes of an organization, i.e. culture and leadership. You can have all the above elements in place but if your culture has no appetite for risk and the leadership isn't engaged, then no one will want to participate in this process.



CULTURE

Culture

Ask yourself the following questions about your credit union's culture:

Empowerment - Does your staff feel comfortable bringing new ideas forward, do they feel like owners of processes that are being improved or ideas being generated?

Risk Taking – Do you have a culture of encouraging smart risk taking; do people have license to fail, try new things?

Accountability - Is there accountability? Are staff being held accountable for decisions being made by them?



LEADERSHIP

Leadership

Sound governance and effective leadership over the change process is essential to deliver any innovation.

Governance - The board plays a vital role in setting the tone of the credit union and its desire to innovate.

Management – Accountable for delivery, ensuring risk and resource optimization. Also, performs the hands-on work required to facilitate transformation, understanding key objectives and ensuring all the moving parts are meeting expectations, deadlines and budgets.

CASE STUDY – CONEXUS CREDIT UNION

Challenge:

Dramatic changes in the financial service industry prompted the leader of Conexus, Saskatchewan's largest credit union and the sixth-largest credit union in Canada, to restructure the organization and its leadership. Conexus restructured its infrastructure around innovation to adapt to a climate of shifting consumer expectations and technological advancements.

Solution:

The prairie province-based credit union focused on small- to medium-sized businesses as a key to economic growth. Conexus conducted research with separate teams to grow business, explore pilot-testing on prototypes and on how to best support member-owners. Conexus tested its approach in small markets, which meant it could adapt and improve rapidly, positioning it for success around executing on innovation.

Results:

In the process, the credit union created a new proprietary way of measuring the financial health of its members aligning with its purpose to improve the financial well-being of members and communities. Conexus now provides education for businesses through their Business Accelerator program, a technology incubator known as the Conexus Cultivator to fuel start-ups, and most recently launched the only credit union-owned venture capital fund to fuel investment-ready businesses in Saskatchewan.

"In the first year and a half of our organizational restructure, we learned a lot," says Eric Dillon, CEO of Conexus. "What's made us unique in our industry was focusing on dedicated teams who could identify the right skills around creation, innovation, prototyping and learning."





**EXECUTABLE
INNOVATION**
is your ability to
"get it done"

EXECUTABLE INNOVATION: A SUMMARY

Innovative credit unions share several key components. They have an ability to anticipate or shape where their markets are heading, then act on it. They fill previously unmet or underserved member needs, boosting their member base and taking market share. However, this only happens if credit unions can generate and prioritize ideas, execute on concepts and integrate ideas into the business successfully.

Successful organizations never stop innovating, implementing continuous improvement at both the incremental and transformative level, and learning from mistakes to build something better. For credit unions, core products such as accounts and credit cards are becoming commodities traded by lower-cost providers and non-bank competitors such as Google, Facebook and Amazon - which have more information about your members and what they need than you do.

The key to success for a credit union is establishing how to undergo effective transformation while staying true to your core values as a member-owned cooperative financial institution. This includes engaging with both internal and external stakeholders and prioritizing innovations that will most benefit the credit union and your members.

CASE STUDY – ALTERNA SAVINGS AND CREDIT UNION

Challenge:

Embracing digital was a key part of Ontario-based credit union Alterna Savings' growth strategy as it looked to expand its services across Canadian communities and compete with established big banks. A digital platform was the foundation of launching their Alterna Bank capabilities nationally as it responded to evolving customer demands for increased online services.

Solution:

Alterna's existing credit union structure allowed the financial institution to quickly respond to opportunities and form key partnerships for an accelerated rate of innovation adoption. Alterna achieved this through multiple financial technology (fintech) partnerships that addressed consumers' demands for more digital offerings.

Results:

The strategy of focusing on digital products and new online services paid off. Alterna launched Canada's first fully digital mortgage in February 2017. Using the platform, members now are able to apply for mortgages at any time of day, every day and hear back immediately on whether they qualify, via an integrated auto adjudication engine.

The digital mortgage also was integrated with their member login portal, enabling members to upload all the documents they needed to communicate with the credit union. And as the demand for the digital mortgage service grew, Alterna launched a partnership with NestReady, a convenient real estate search solution for homebuying.

"The economy is shifting, and we need to move with it," says Rob Paterson, CEO of Alterna Credit Union and Alterna Bank. "Millennials are a subscription generation, where they want to pay monthly and forget about it. We need to remove friction in the banking experience, as consumers want information at their fingertips."

KEY FUNCTIONAL CAPABILITIES

 IDEATION

- Strategy & Goal Setting
- Analytics & Research
- Idea Generation
- Screening & Prioritization

 EXECUTION

- Program Management
- Project Management
- Vendor & Partner Management
- Dev Team Capabilities

 INTEGRATION

- Management Control Systems
- Continuous Improvement
- Staff Capabilities
- Member/Customer Acceptance

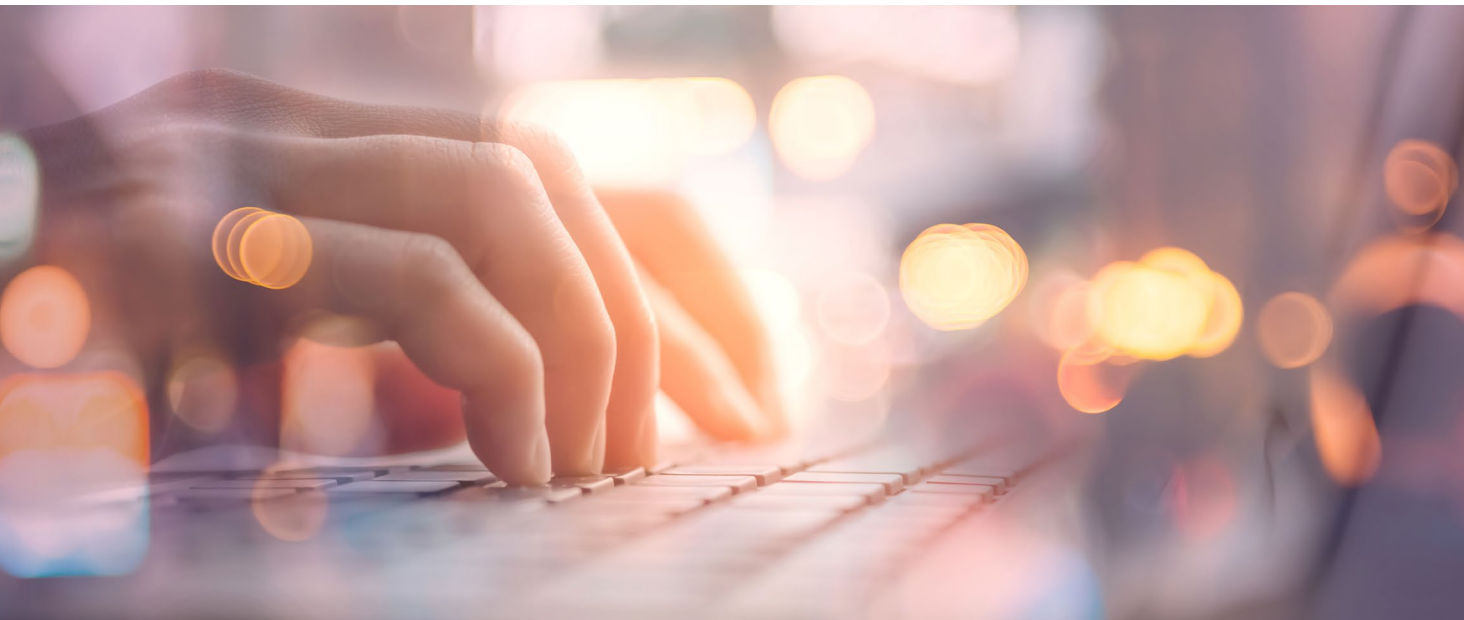
FOUNDATIONAL ATTRIBUTES

 CULTURE

- Empowerment
- Risk-Taking
- Accountability

 LEADERSHIP

- Governance
- Management



ARE YOU READY TO EXECUTE INNOVATION? TAKE THE TEST

One way to understand where there are possible barriers to transformation is assessing gaps in your credit union's capacities. While not a methodology for execution, the following scenarios can help you understand your strengths and weaknesses.

- You know there are many things changing, but you're not sure what's important to your organization and members.
- You have trouble getting an idea from management or board approval operationalized into branches.
- You come up with what you think is a really good solution, but it's not embraced by the team so not impactful to members.

If you checked the box on any of the above, you likely have critical gaps in executable innovation capabilities. And you aren't the only one: an overwhelming number of business leaders in Canada – 96 per cent, according to MNP's Transformation Survey - reported they contracted external services to anticipate or react to the forces of change.

MNP's team is here to help you with the missing pieces in executing innovation within your credit union.

To request a full self-assessment of your credit union's gaps in executing innovation or for more information on how MNP can help, contact:



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ABOUT MNP

MNP is a leading national accounting, tax and business consulting firm for Canada's Credit Unions. We have invested more time and resources into understanding credit unions and their dynamic landscape than any other firm. Proudly serving more than more than 135 credit union across Canada, MNP has developed a diverse suite of services designed to strengthen credit union leadership, knowledge and financial position. By delivering personalized solutions from a local perspective, MNP is committed to helping credit unions succeed across the country.