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5 Areas Of Innovation All Credit Unions Need To Monitor

Up-and-coming products will impact the relationship between credit unions and their members.

By Scott Patterson

In September, The Finovate Group hosted more than a 1,000 attendees and 69 presenters at its FinovateFall conference in New York City. The Finovate Group — whose name is a portmanteau of the words “financial” and “innovations” — is a Seattle-based technology research firm that focuses on advancements and trailblazers across the globe in the financial industry. Its flagship FinovateFall road show gives cutting-edge enterprises, ranging from established companies to emerging startups, seven minutes to demonstrate their latest projects to an audience of bankers, VCs, and banking technology firms. The Finovate Group bills the event as “part sales demo, part press conference, part trade show” and hosts similar productions around the world, such as the upcoming FinovateAsia in Singapore and FinovateEurope in London. FinovateSpring is scheduled for April in San Jose, CA.

As vice president of new business for Callahan & Associates, I keep an eye on financial innovations I think might help credit unions improve their bottom line and their member relationships. I attended FinovateFall to learn about what up-and-coming products I'd soon be seeing in the financial services space. Not surprisingly, certain themes emerged during the two days in New York. The five most salient themes I saw for credit unions include: mobile applications, security, personal financial management, small business services, and payments. Innovators have concentrated investments and brainpower in these areas; as such, they are likely to have a significant impact on the relationship between credit unions and their members.

Mobile Apps

No piece of technology has been adopted as broadly or rapidly as smartphone technology. According to a 2013 study conducted by the Pew Research Center, 91% of U.S. adults own a cell phone — Nielsen estimates that 64% of mobile phones in the United States today are smartphones — 60% of cell phone owners use their device to access the Internet, and 32% of cell phone owners use their device to conduct banking business.

From a financial services perspective, mobile phones do more than provide an Internet connection, GPS, and a camera — although I did see several financial innovators incorporating these types of mobile features into their products. Mobile phones today enable consumers to conduct any type of cashless transaction with a financial institution at any time, anywhere. This is evolutionary considering five years ago no one predicted the extent to which consumers would be carrying their computers — and now, by extension, their financial institutions — in the palm of their hand. “Mobile” is no longer the frontier of financial services. It is not emerging technology. Mobile is here and members expect, not just want, such access to their FI. I know I do.

Three FinovateFall presentations in the mobile genre stood out to me as being particularly notable for credit unions.

- A mobile app by Kofax allows borrowers to photograph and upload loan documents and supporting material via mobile phone. Members avoid post office lines and scanner or fax operations; credit unions benefit from speedier application times and fewer abandoned applications resulting from missing or incomplete documentation. Plus, the app's dashboards highlight bottlenecks and identify borrowers who might need direct assistance.
- An app by Mitek Systems populates forms based on an image of user's photo ID such as a driver's license. The user saves time and the credit union avoids costly keystroke mistakes.
- An app by Cardlytics pushes ads and deals based on a mobile phone's location, for example on a car dealership lot or near a restaurant.

Apps that complete paperwork or supply a smartphone owner with information based on physical location might seem futuristic but so did social media and Google in the early days of the Internet. That mobile technology is still in its infancy means the most amazing innovations have likely not even occurred to anyone yet. I am excited to see watch as this field evolves.

Security

With the rapid advancement in mobile applications, security is understandably also on the radar of financial services providers. The gold standard of banking should be to properly authenticate a user regardless of the product they are using. In yesterday's banking norm of teller-to-member interactions, it was easier to validate whether a member was who they said they were. Today, many members conduct their transactions almost entirely anonymously and from all over the globe, making proper authentication even more critical. Unfortunately, the standard single-factor authentication — i.e., username and password — is a poor way of determining a user's true identify. When given the opportunity to select a password, most people use the same word combinations. That means most people are a single hack away from having someone assume their identity online across multiple sites.

As online and mobile banking evolve, financial institutions need to be vigilant about validating the identity of remote users. This involves the delicate balance of offering a manageable process for users — preferably a multi-factor process that includes a physical component — that is also secure. A dozen Finovate presenters touched on security and identification fraud. I can see some solutions working well as a backup or additional layer of authentication; others can stand on their own.

- Toopher uses GPS data as a backup layer of authentication. Users tend to access websites and mobile apps from the same physical locations most of the time, so Toopher builds algorithms based on a user's known locations such as the workplace, home, coffee shop, or airport. If the user accesses a site from a common location, Toopher approves the session until the user's actions trigger a higher authentication. If the location is unusual, Toopher requires the user to pass further authentication.
- Socure puts what it calls "Social Biometrics" (TM) to work against fraudsters and bots by authenticating sign-ins from social media sites or login forms against known social media behaviors, which it says are reliable identifiers.
- Zighra insists the way a person holds and interacts with a smartphone is a signature in itself. Its app, KinecticID, requires neither password nor PIN. The grip of the user is what authenticates the device's owner. Think this is too far-fetched? Zighra has plenty of research to support its claims.
- Jumio uses the camera from a mobile device or laptop to authenticate account service applications such as new member account applications and loan applications. Users take a photo of their picture ID, passport, bank statement, utility bill, etc. and Jumio software verifies it on the spot.

I was struck by the positive, rather than gloom-and-doom, nature of the FinovateFall presentations. Admittedly, fraud does harm people everyday, so it is the obligation of financial institutions to be on the leading edge of authentication and to always be looking at better forms of security. But technology is advancing to the point that financial institutions are going to be in a better situation than they were before

online and mobile banking existed. Risk has increased, but security and identification have gotten so much better that financial institutions can conduct business with more confidence than they could with face-to-face interaction. For example, FIs can now instantly validate a driver's license against state DMV records. Enhancing security — whether online or in a new vault — has been and will continue to be an ongoing practice that maintains the integrity of the member relationship.

Personal Financial Management Capabilities

The account aggregation technology that is the hallmark of personal financial management (PFM) tools is nothing new, but there is a renaissance occurring today in the area. Many PFM providers coming onto the scene are licensing account aggregation technology and innovating around existing platforms. In this case, it's not the account aggregation that is innovative; it's what the new PFM tools are directing that is innovative. Account aggregation technology, which is sophisticated in and of itself, is powering several new initiatives that wouldn't otherwise have been able to get off the ground.

Next generation PFM looks a bit different than the tools of 10 years ago. Then, PFM tools helped users broadly manage personal finances; today, PFM providers focus on specific consumer needs.

- Aided bu Intuit, Level simplifies and digitizes household budgets and shows real-time cash flow in a way that is more user-friendly than bar and pie charts.
- MoneyDesktop is an established PFM provider that has tweaked its service to be more forward looking and help members achieve financial goals and milestones. It still allows users to aggregate accounts and enact transactions, but it now also looks at a user's range of accounts and history and uses this background data to offer advice, plans, and budgets based on a user's life stage. The tool considers not only what the user has done, but also what they *want* to do and what they *need* to do to get there.
- FutureAdvisor offers automated financial advice to people with $50,000 to $30,000 in assets. The program analyzes a user's aggregated asset accounts and performs wealth-increasing activities such as rebalancing asset portfolios, harvesting tax losses, and identifying hidden fees. It uses the same type of sophisticated algorithm typically reserved for high-net-worth individuals to provide better wealth advice for everyone. FutureAdvisor doesn't work unless the user inputs all their financial information; however, the personalization of it is such that advice actually changes based on user behavior.
- A support app of Yodlee, the granddaddy of account aggregation, allows several people to share account information, messaging, and transactions. The app, Tandem, facilitates social interaction around shared account users in all stages of life: from parents teaching teenagers how to manage finances, to newlyweds transitioning to shared finances, to grown children sharing responsibilities for the financial well-being of an aging parent.
- Backbase doesn't just aggregate account information for small businesses, it provides tailored services such as payroll, cash management dashboards, invoicing capabilities, and business workflow management. Its financial management advice provides sophisticated financing capabilities for any size business. It also gives credit unions that don't have a suite of products specifically designed for small businesses the opportunity to offer next-generation small business services.

These new PFM capabilities are empowering for users, and many new PFM entities are going direct to consumers. However, it will be difficult to achieve critical mass on their own,* thus the ultimate goal for many is to integrate with an existing FI's home banking experience. There are partnership opportunities out there, but more importantly, credit unions need to be aware of the different ways these smart companies are thinking about the needs of consumers and how technology can address those needs in creative ways. This is an area in which real innovation is happening, so know what's on the horizon and talk with your providers.

**Mint achieved critical mass by itself by going direct-to-consumer, but more of its competitors failed than succeeded in that endeavor; ultimately, a firm that had existing relationships with financial institutions, Intuit, bought and is now distributing Mint technology to an even wider audience.*

Small Business Services

Aware that entrepreneurship is still a goal for millions of Americans, companies at FinovateFall showed they were keen on helping financial institutions connect to and hold onto small business customers. Most of the innovations in this area revolved around the type of banking relationships that have historically been the realm of community banks. I see a lot of potential in small business technology for credit unions that are interested in exploring this line of commerce.

- SimpleVerity evaluates the creditworthiness of a small business and helps FIs and owners determine the valuation of a small business.
- Mobile Funder, from Capital Access Network, allows an FI's business development reps to work through loan applications, gain approvals, and supply capital on-site at a small business through their mobile device. It thus speeds the loan process and eliminates redundant in-house visits.
- FinanceIT is a tablet app that allows businesses and merchants to offer financing from a partner FI at the point-of-sale. The app's consumer-friendly loan application includes identification scanning and validation, which allows for instant decisioning and underwriting. For example, a community-chartered credit union partners with a local furniture store to offer credit union-funded financing plans, thus enabling more consumers to purchase pricey items such as large appliances, dining room table sets, and living room furniture. The completed transaction satisfies all parties: The consumer gets the product, the credit union gets the loan, and the merchant gets the sale. Additionally, the transaction offers the credit union a chance to establish a closer tie with the consumer and the small business.
- Lighter Capital pairs future-looking customer relationship management (CRM) data with past-looking accounting and bank data to help lenders better forecast a small business's future performance. Tapping into this kind of data could help an FI predict financial instability of a business long before financial performance statements reveal it.

Like most small businesses, credit unions are anchored in the local community; in many towns, credit unions are as established as the local university. Credit unions are here to stay, as such, there is no reason it cannot be a credit union in the above examples that creates opportunities for small local businesses and communities. Locally owned credit unions are unlikely to be acquired and shut down, as happens all too often when larger competitors buy smaller regional banks. As more credit unions become community based, it is likely we will see more partnering activity with small businesses within the community.

Payments

Payments is on the cusp of a major change. No one knows what the payments space will look like in five years — I won't even venture a guess — but it certainly will be heavily influenced by mobile. Much of the activity in and around payments takes into consideration what an Apple or a Google might do in this space. Will they do it in partnership with an established financial institution? Will they do it on their own? More importantly, will credit unions have a seat at the table?

- This spring, FiServ rolled out Transfer Now, which immediately transfers funds between different financial institutions. FiServ believes consumers will readily pay a small fee for the service rather than wait for a multi-day ACH transfer.
- Similar to Transfer Now, P2PCash allows users to send cash across national borders without fees. Its set exchange rate allows for lower international money transfers using international banking networks (SWIFT).
- Canadian company Paywith has a pre-paid credit card-like product that allows customers to display their Paywith card on their smartphones and merchants to enter the card number on their normal credit card hardware reader. Although I don't think it is likely to win the day, it's an interesting take on implementation that merchants will like because it does not require a heavy upfront investment in hardware. It also offers the ability to attach coupons or discounts and offer rewards for repeat business.
- France-based Secom presented a sonic communication that is compatible with all smartphones today. Using Seacom equipment, a merchant inputs the transaction amount and the customer enters

> their phone number and PIN. The equipment calls the phone and the phone — which can be up to 10 meters away — confirms the transaction with a series of secure tones. Seacom is notable because only 5% of smartphones today use the near-field communication (NFC) technology that is widely believed to be the likely method of future contactless payment technology. Seacom demonstrates a different way to roll out contactless payment technology that doesn't require everyone to adopt new NFC hardware.

I cannot overstate the importance of payments for credit unions in terms of sources of income. There are a lot of players who were not traditionally in payments that are now changing the game; however, it doesn't have to be a scary future. Google and Apple can absolutely create the disruptive technology that changes everything — they've done it before across numerous industries. But I believe even Apple and Google will be more successful in achieving widespread adoption of their technological solution if they have a partner who already has consumer trust in regard to financial transactions, namely credit unions and banks. It's a fundamental strategy that works regardless of technology and application.

The Bottom Line

Watching Finovate demonstrations is not unlike watching the history of the Internet. Some of the companies that present at Finovate will succeed. Others will fizzle out. And then there are demonstrations that include a mind-boggling component with applicability far beyond the product's intent. These are the presentations after which attendees say, "Someone is going to make that happen."

That's the intrigue. But aside from financial fantasizing, the two days at FinovateFall offer a great venue to learn about what's coming down the pipeline for credit union professionals interested in banking innovations. True to its promise, this year's lineup presented a host of intriguing ideas that will surely be on the radar of financial institutions for years to come.