A Credit Union's Guidebook:

13 Ways Data Analytics Can Grow the Small Business Portfolio

FinTech DS+C
Data Science + Consulting

2016 has been a tremendous year for advancement with data analytics initiatives. Credit Unions that are already turning member data into smart, actionable insights see major pay-offs in new business, better member targeting and segmentation, faster decision-making, efficiencies in operations, and progress in risk management. As the industry continues to evolve and face competition from banks and non-bank entities, it's time for leadership to think long-term about the organization's goals and future growth and how advanced analytics can support these objectives. How can data science and advanced analytics be a critical component to the credit union's small business portfolio growth? These thirteen steps provide insight.

Step #1: Define growth objectives

What is your goal? What are your credit union's top priorities for analytics? Is it to improve sales, service, cost reduction, regulatory compliance and risk management or to gain a competitive edge? What are future goals, and how will you get there? Be certain to align business goals and internal culture to maximize data. Big data and the intelligence extracted from data is not intended only for the IT department. In fact, it should be used primarily by CXO, Line of Business leaders and member-facing staff in order to achieve maximum potential.

Credit unions need a strategic plan for collecting and organizing data, and a way to measure how data analytics can create long-term value. Not all individual credit unions have the resources of corporate giants or mega banks, but advances in data storage and software tools mean that credit unions can start leveraging the value of their data right away. To get started, the first step is to ensure they have the expertise, staff, budget, tools and skills (whether in-house or from an outside partner) to effectively collect, sort and act on their data.

The Goal: Become a more significant contributing member of the local economy by providing capital and enabling financial services to small businesses thereby enabling them to grow and thrive.

Step #2: Divide the credit union's portfolio into WAR Groups ("Weighted Average Rate")

Find the hidden opportunities for new business, revenue growth and cross-selling.

Divide the weighted average by loan "type," renewing in the next 3 to 6 months and determine the following, those loans:

1. Above the Weighted Average Rate
2. Below the Weighted Average Rate; member with positive contribution
3. Below the Weighted Average Rate; member with negative contribution

Step #3: Identify the Ideal Prospect Profile

Determine what characteristics describe your best members.

Geography, number of teller transactions, recurring ACH deposit, recurring debit card transactions, high volume debit card transactions, fees, high balance, multiple products, tenure with the credit union, use of mobile, iPad app, average monthly deposits, number of internet banking logins, payroll processing, merchant relationship, corporate card, or a "right mix" of products and services.

Determine the following:

• What is the "right" or "ideal mix"? Most likely, a couple of equations will result.
• What are the metrics that most closely correlate with success?
• What characteristics equate to a positive contribution member?

The goal is to focus business, relationship and referral development on the right members at the right time while knowing the next product or service to elevate other members. The dashboard helps, but the best answer results from statistical modeling.

Step #4: Uncover Valuable Insights & Opportunities

Once you collect and cleanse the data, you then need to use your interface to make valuable insights. Deploy a system that transforms everyday data into valuable insights. Identify specific member segments where there is untapped potential for profitability. Understand member behavior trends and purchasing influences to sustain a competitive advantage.

Step #5: Uncover specific opportunities revealed to determine who is a buyer

There are multiple ways the credit union can determine the ideal buyer in your unique setting. Ideas include: overlay UCC Data with an Ideal Prospect Profile; identify lien expiration data; understand area competitor; identify the dollar amount of lien on a loan amount. For retail or mortgage opportunities, use Zillow Zestimate which is updated quarterly.

Step #6: Devise a Business Development Plan

Plan on how to get access to information. This can include asking for referrals from top-performing relationships or referrals of prospect's neighbors and business partners. Determine how the credit union will take prescriptive action on newfound knowledge that drives an ROI.

Step #7: Grow the line of business and boost deposit growth

Use data analytics to predict *what* will happen, *when* it will happen, *why* it will happen and *what the best course of action* is to optimize outcomes and manage risk. Focus efforts on the most promising opportunities resulting in an immediate and sustainable boost to revenue or business goals. Segment members, predict behaviors, identify and target tailored messages for effective marketing. Determine the optimal action AND measure, stamp and track the action's impact. Incrementally develop best practice by comparing performance of different actions against a control group. With Advanced Analytics, statistically identify Action to Success and Best Practices. Decide on how to act during these various scenarios:

A new member joins the credit union. When do you sent them a welcome letter—two weeks or two months? Make a specific offer, track the success of the action and offer. Define and measure success of that specific action that took place upon the on-boarding of a member process. Can you present specific messages via Internet and mobile channels? Will your staff introduce the next product model at the teller line of business? Can you and will you segment areas of opportunity and do you know the best action to take?

Step #8: Reduce Loss

Make certain you have a process that can track and pin point a small business that writes a high volume of checks, but does not have positive pay. There's a perfect opportunity to then sell Positive Pay – which can improve retention and non-interest income. Another idea is to encourage the member to sign limitation of liability – to help reduce check fraud. Or, the credit union can provide a waivers for members with a negative contribution.

Step #9: Continue to grow the line of business organically

Your credit union can grow business, not just increase loans, but a small business may need merchant services with the Credit Union. Or, search transactions and identify all small business accounts with ACH deposits that include description "MC" or "Visa" or "merchant" or "services" or "settlement." These are more opportunities to present more services to your members.

Step #10: Transform the Culture

An advanced data analytics program aligns teams and fosters healthy working relationships, since everyone is working towards a common goal: to make the credit union more efficient, productive and profitable. When everyone is working towards the goal of turning data into more informed decisions and developing recurring best practices, results happen. Data analytics offers more than just metrics of a Credit Union's performance—analytics can be the key to enhancing and maintaining a vibrant workplace culture. Consider these transformations that could take effect:

- Decision-making process becomes more transparent and fact-based
- Goals are aligned when team members see the value and power of data analytics
- Specific lists, with quantitatively proven best action, equates to earnings through incentives
- Sparks the entrepreneurial spirit and promotes "Learning Organization"
- Employees gain an increased sense of value and ownership when able to solve challenges and quickly act on opportunities identified through data analytics
- Incentive and reward plans are integrated to strategic goals as analytics tracks action, outcome and ROI
- Credit Union attracts the best area performers

Step #11:

Calculate a "Loyalty Measure," combat attrition, cross sell

One of the best ways to calculate a loyalty measure for each relationship is to determine specific characteristics and early warning signs that a member may be leaving the credit union. Two signs include, transaction volume is down and there is a noticeable decrease in digital engagement. Advanced data analytics can calculate these symptoms of attrition and help you curb your best members going to the competition.

For cross selling strategies, determine the most retentive product. And make sure this product is used by the above illustrated "WAR" relationships. Including these critical steps in your data analytics strategy can potentially increase average member life from 4.5 to a 6 year average life. This step has a significant impact on member contribution and franchise value.

Step #12:

Transform into a "Learning Organization"

Top performers can be recognized and by becoming a learning organization (a concept coined through the work and research of Peter Senge), the credit union can facilitate the learning of its members and continuously transform itself. The culture of the credit union begins to change, strategic initiatives are measured, resources are provided to team members in the form of information and action lists, and performance can be assessed. Data science is the next step in business intelligence and will drive improved member service, retention and contribution.

Step #13:

Create daily feedback through incentive modules

In time, the credit union will have the ability to take action on specific data segments based on member contribution, next best product models and algorithms that identify opportunity. Such action lists are an important resource to the frontline teams and should both align with strategic goals and be measured through scorecard or incentive module feedback. Create an incentive Compensation Scorecard to keep focused. Estimate / forecast production. This will help identify any issues early while there is time to adjust and correction actions. This information will be filtered down to team members and management to ensure incentive compensation supports strategic objectives and will constantly be monitored and adjusted to achieve optimal success.

Credit Unions that are well-prepared to harness member data via advanced analytics stand to drive huge new market share. Today, without a commitment to data analytics, financial institutions will struggle to thrive and survive in tomorrow's competitive business environment.

The next and most critical step!

How is your credit union doing with these 13 steps? FinTech Data Science + Consulting provides credit unions with the tools, resources, expertise and proven lists to deploy a successful data analytics program that produces a significant ROI. Consider FinTech DS+C as your outsourced chief data scientists and chief strategy officer. We will analyze your data each day, and train your staff to uncover new opportunities, reduce expenses, retain members and create new revenue streams. We will advise your decision makers to take action on immediate opportunities, track success, and improve cross-sell opportunities that enhance their competitive advantage.

Sound interesting? Let's take the next step and schedule your one-on-one complimentary discussion to assess your opportunities. Contact Steven D. Simpson, CEO of FinTech DS+C at Steven@FinTechDSC.com or call **(786) 859-4100**. Visit us at **FinTechdsc.com/2017/02/analytics-assessment/ to start your journey today!**