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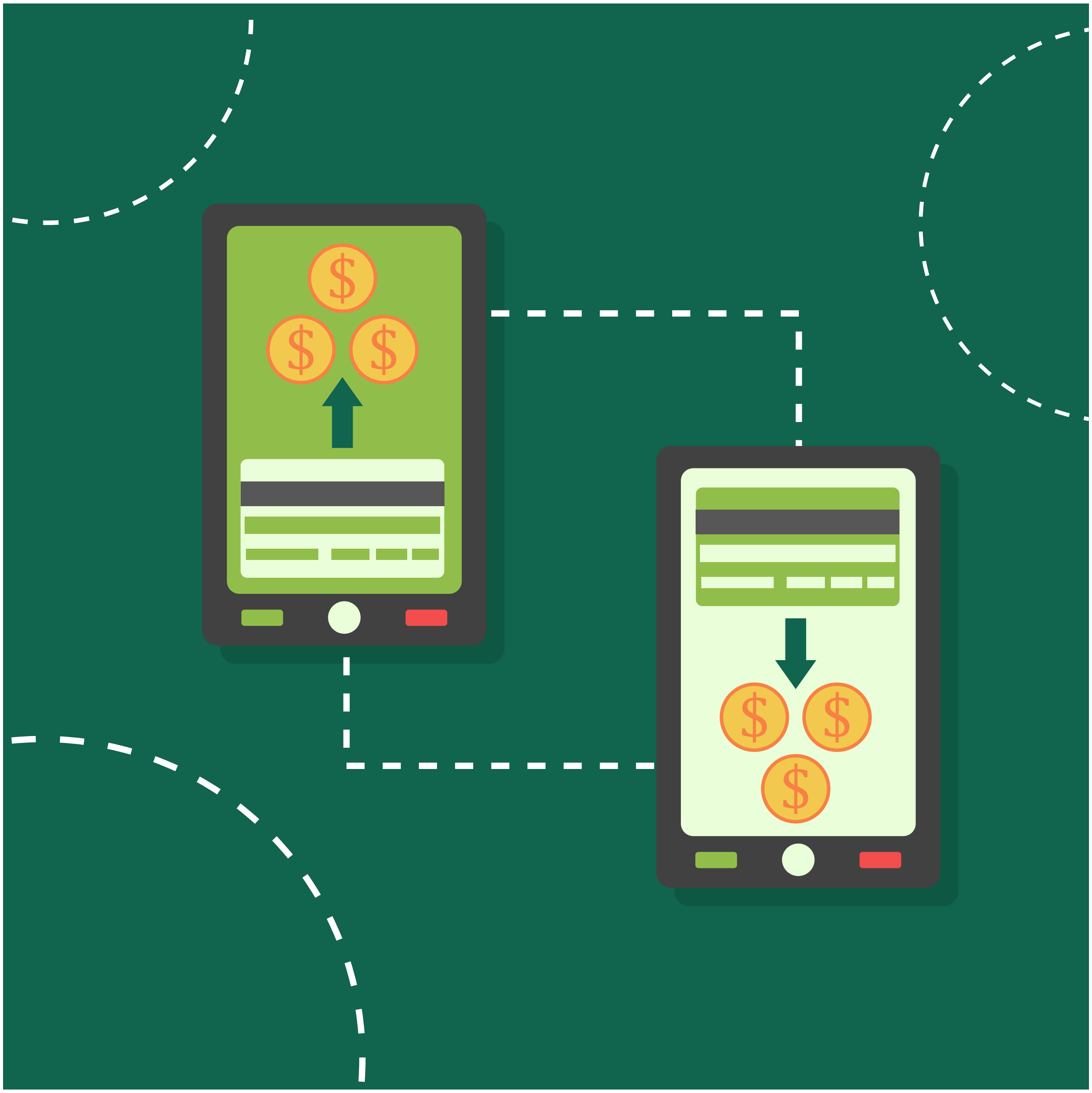
HOW TO SUCCEED IN PAYMENTS



FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

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TABLE OF CONTENTS

The discussion surrounding the future of payments is a divisive topic within the financial services industry. The proliferation of technologies and delivery channels has fundamentally changed the payments marketplace, with financial institutions experimenting in new channel designs and functionalities. This Callahan Collection presents credit card strategies, the value of payments technology to member relationships, and the lessons credit unions can take away from non-traditional payments providers.

HOW TO SUCCEED IN CREDIT CARDS

Luck only lasts so long. That's why every credit union needs a long-term roadmap for this crucial area of business.

BY TIMOTHY KOLK

Credit unions across the country are struggling to find quality loan volume that generates a reasonable yield. When properly pursued, the credit card and payments market provides abundant opportunities for almost any issuer, regardless of size.

For example:

- Over the past five years, credit unions grew their credit card market share by 50% while bank share shrunk. Contrary to popular perceptions, the recession years were beneficial for credit union card programs.
- Credit card interest rates have not declined from pre-recession levels. Other loan product yields, however, are down by up to 50%. Never before have credit cards provided a more attractive revenue opportunity compared to other products.
- Credit risk and charge-off rates are at their lowest point in more than 20 years. Large bank issuers are marketing and improving their own products, but credit unions can also look deeper and provide more cards to more members than ever before.
- Margin and ROA are at historic highs and a well-performing card program can often generate three to four times more income dollar-for-dollar than other loan products. In other words, credit card program profitability can play a major role in overall financial performance even if the program occupies only a modest place on the balance sheet.

It is important for credit unions to take advantage of these fortunate tides before conditions change. Banks recognize the attractive opportunity and have returned to the market in force after taking a break from aggressive new account marketing during the recession. With the largest and most sophisticated issuers competing as heavily as ever — including developing stronger cardholder value propositions — credit unions cannot rely on goodwill and inertia to carry them forward. Instead, they must develop employee skills and dedicate institutional resources to protect and grow this business.

Translating opportunity into strategy and strategy into action can be a challenge, particularly for those who view credit cards from an operational perspective. Getting bogged down in technical matters, EMV concerns, mobile wallet turbulence, or any host of day-to-day distractions is easy. But successful issuers lift their eyes toward the horizon and adapt to keep their programs growing and performing year-over-year. They do no count on third-party processing organizations to do all the thinking for them.

So, what does a credit union issuer need to understand and improve upon to position its credit card program for the next several years? A few crucial traits will separate the top performers — and earners — from the rest of the pack.

UNDERSTAND THE ENTIRE MARKET

Too often, issuers base their credit card products and plans on their own book of accounts and a few other issuers in their area. Cards exist in a national market, and large banks still issue 90% of these accounts. Knowing what the banks are up to, what segments they are most aggressively pursuing, how they are designing and positioning their products, and which of these pose the biggest threats to your member relationships is critical for any forward-looking credit union card issuer.

KEEP THE PRODUCT SET FRESH

The classic/gold/platinum product set construct is a relic of the past. But even many modern programs are at risk of falling behind market expectations in terms of rate options, special promotional programs, targeted loyalty/reward propositions, service delivery technology, and high-end card type options. Credit unions cannot look at their card product design once every five years; they must continuously analyze and refine it, which often takes place behind the scenes and beyond the average cardholder's understanding.

SEGMENT MEMBERS

The term "credit card" means different things to different member segments. For some, it is a product to which they aspire but do not yet qualify. For others, it is a source of regular or occasional credit. And for others, credit cards are transactional tools valued for convenience and rewards. Issuers must develop a segmentation approach based on member viewpoints that matches product value and member expectations. Mismatching product value and member desires results not only in less growth and income but also in increased risk that cardholders will become dissatisfied and defect to a rival offer.

DEVELOP PEOPLE FOR STRATEGY

Many organizations have not sufficiently invested in the skills required to run their program. Often, day-to-day responsibilities fall to an operational function, whereas medium and long-term planning require a more strategic view. In some cases, the people setting the credit card strategies don't adequately understand the product's financial performance or marketplace appetite for the value proposition.

Those running a card department need not only a strategic mindset but also strong analytic and tactical skills, and developing this staff requires both management support and institutional investment. It might be difficult to find a perfectly experienced and skilled card manager. That's why identifying and training promising internal staff is often a better solution than bringing in unfamiliar external hires.

USE REPORTING AS A STRATEGIC ADVANTAGE

In the world of financial services, good reporting and the guidance it provides is a critical strategic advantage. Good reporting provides actionable information and guides daily decisions regarding resource allocation. A successful issuer needs to be able to answer questions such as:

- How much money does this product make?
- What is its ROA?
- Which products are growing?
- Are cardholders borrowing and spending more or less than last year?
- What was the response rate on our marketing campaign? Did that provide sufficient returns?

When properly armed with this type of knowledge, an institution can begin to make smart, focused, and justifiable decisions on resource allocation and product design. Make no mistake, credit unions that are struggling or have been merged out of existence have often been historically weak in reporting or performance measurement. This leads to bad resource allocation decisions over time, potentially resulting in competitive failure.

PROVE, ADVOCATE, THRIVE

Even the best run credit union programs need to sell their performance to internal management teams, colleagues, and the board. And card programs in particular require a regular stream of marketing and program management resources to meet their potential.

An organization with all of the skills listed above still needs to translate program performance into information so these constituencies can understand the program's value, share in its success, advocate for it, and confidently provide the resources to keep building it. When the entire organization has a singular view of its card program, a credit union can compete with even the largest large bank issuers.

Unlike other loan products, a successful card program does not have a date when it will run off. Existing accounts can stay on the books for decades, generating income while augmenting other products within the overall member relationship.

Even a smaller program, like credit cards, can be an institution's highest earning and offer the most long-term value to the organization. Credit unions who realize this — and who choose to continually support and invest in this important business line — will have a brighter future.

UNDERSTANDING THE VALUE OF EARLY ADOPTERS

Members who accept new self-service options are a market segment worth cultivating. And although there's plenty of opportunity in Gen Y, don't discount other age groups.

BY AARON PUGH

Have you ever considered implementing a shiny new service innovation or an efficiency-laden delivery channel but held off because of worries that the option wouldn't fly with your membership? As it turns out, credit unions can paint a much clearer picture of potential adoption rates — as well as the resulting impact on efficiency, membership growth, and even return on assets — by proactively identifying, segmenting, and growing their early adopter membership segments.

Although these groups may look very different on paper, each has certain tendencies — including independence and mobility, an appreciation for convenience over interaction with employees, or a familiarity with next-generation consumer technology — that makes them more open to new services and delivery channels than the average member.

BUILDING A PROFILE OF EARLY ADOPTERS

According to a 2012 BAI Research study, current channel preferences — particularly for high-tech, self-service options such as mobile banking, mobile payments, and remote deposit capture (RDC) — can indicate how open individuals will be to adopting next-generation technology.

Young members are one prime target, but be careful not to clump all of these individuals together. One segment to pay closer attention to is low-income individuals under the age of 44 who earn less than $50,000 annually. This group represents roughly 21% of the banking customer population and, according to the survey, tends to favor ATMs as its primary channel, followed by mobile and telephone banking. This group also happens to be the most open to alternative payment options (for instance, anything not considered cash, check, debit, credit, online bill pay, or PayPal.)

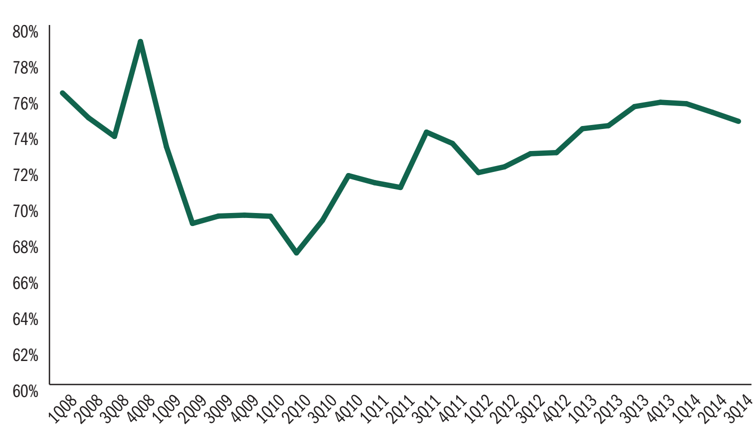
A related subset is the emerging affluent, who constitute approximately 7% of the banking population. These individuals are classified as age 29 or younger and earning more than $50,000 annually. Although they too prefer ATM, mobile, and phone banking over other options, they are far more inclined to use these self-service channels (and subsequently disinclined toward traditional ones) than any other demographic group. They are also the second-most inclined toward using alternative payments of any other group.

There's certainly plenty of opportunity in Gen Y segments, but don't discount your older members just yet, particularly if they're wealthy. The final group that stood out in the BAI study was consumers age 30 or older who earned $125,000 or more annually. These individuals account for 11% of bank customers and, though they are most inclined towards the online channel, they are also more open to using mobile or telephone banking than any others in that age bracket. Affluent groups of any age, along with boomers, tend to show a much stronger affinity for RDC than any other consumer segment.

"Younger member aren't apathetic to RDC; it's just that they already expect it," says Tony Rasmussen, senior vice president of payments and business services for Mountain America Credit Union ($4.0B, West Jordan, UT). "Older members tend to be more delighted with the option because they remember having to do deposits in much less convenient ways over the span of their lifetimes."

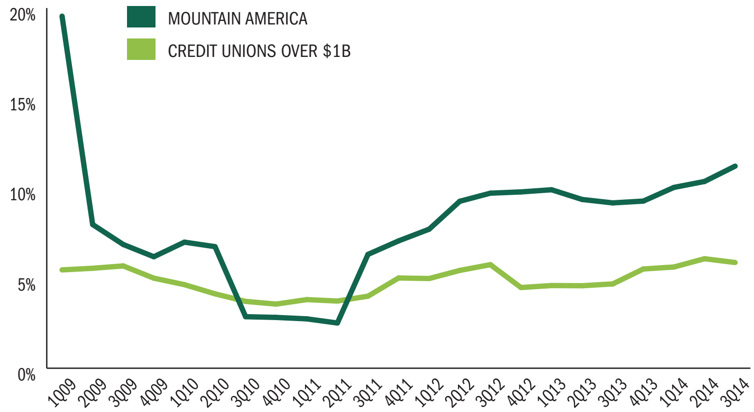
With 16% of its membership consistently using some form of mobile banking, Mountain America has also

EFFICIENCY RATIO — ALL U.S. CREDIT UNIONS (MINUS PROVISION FOR LOAN LOSS) | DATA AS OF SEPTEMBER 30, 2014



Generated by Callahan & Associates' Peer-to-Peer Software

MEMBERSHIP GROWTH: MOUNTAIN AMERICA VS. CREDIT UNIONS $1B+ | DATA AS OF SEPTEMBER 30, 2014



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seen its mobile deposit activity increase nearly a million dollars a month over the past year, driven by adopters of all ages.

According to BAI's research, when viewed holistically, the pool of early adopters is anything but shallow, representing up to 40% of all financial consumers.

WHY THEY MATTER

According to Callahan & Associates Peer-to-Peer Software, the average efficiency ratio for credit unions nationwide has fallen nearly 1% year-over-year to 74.64%, and even small increases in adoption of self-service options can help keep these expenses in check.

On the surface, early adopters may not seem as profitable as other segments — particularly the younger segment. However, financial institutions that do a good job of attracting and developing early adopter segments are seeing quite the opposite.

According to a recent press release, Desert Schools Federal Credit Union ($3.5B, Phoenix, AZ) discovered that early adopters of its mobile banking technology were two times as profitable as the members who didn't use that channel.

Early adopters can also be powerful assets for generating referrals to the institution, or convincing others to try a particular product or service, says Rasmussen.

"We had one member in his 50s who is responsible for not only bringing over 80 people to the credit union since he joined in his 20s, but who has also demoed our mobile banking service to over 25 people," Rasmussen says. "He told us the people he talked with were a little hesitant about the technology until he showed them how it works — then they were sold."

INDENTIFYING AND CONVERTING THE HOLDOUTS

Although there is certainly potential in any marketplace, the intensely local focus of many credit unions means that their early adopter populations may be much larger or smaller than national averages, based on the particular region or even the type of accounts served.

For example, although small business owners have a high propensity for using mobile products to track various components of their operation, they also tend to lag behind ordinary consumers when it comes to adopting financial technology, says James Hughes, research analyst for BAI. In all, a bank's small business customers still choose to conduct roughly two-thirds of their financial business in a branch.

Yet, many small businesses may shun remote service simply because they were never informed such alternatives were available, or because their institution failed to highlight the potential benefits of these options.

"Small businesses are one of our biggest users of mobile deposits, as they are highly motivated by time and cost savings," Rasmussen says. "Within the first few months of offering mobile deposit, we had several small businesses ranging from dentists to truck drivers who were power users of this technology, with some depositing as many as 20 checks a day."

Likewise, nearly every institution has a segment of members who still want to conduct transactions in the branch, but that doesn't mean that these individuals can't be early adopters as well. Emerging options such as kiosks and remote tellers are having a significant effect in modifying branch visitor behavior, blending the benefits of self-service without eliminating the human interaction or service standards these members hold dear.

Today, approximately half of the loan volume at Element Federal Credit Union ($27.9M, Charleston, WV) is generated by online, kiosk, mobile or other self-service interaction, yet the remaining loan interactions are also being streamlined by new technology. Not all members fell in love with these options at first sight, but a series of strategic pushes in consumer awareness complemented by employee assistance when necessary has helped encourage members to accept and use these options.

"Whether it's iPads, Skype, or another new remote service, we are constantly introducing our members to new technology," says Kristin Miller, a member services representative for the credit union. "We have older members come in who haven't ever used these things, and we'll go over it with them one-on-one so they can see how easy it really is."

By not only generating new service options but also strategically cultivating a captive audience willing to use them, Element has been able to maintain an efficiency ratio historically lower than its asset-based peer average.

"Whether our members consider themselves techies or not, they are because of the services they use to connect and do business with us," says Samantha Painter, assistant manager for Element.

MOBILE LESSONS FROM PAYMENT SPACE INVADERS

The business models of payments companies such as Venmo, PayPal, and Square compete with credit unions, so it's critical to know what makes them appealing to users and how credit unions can replicate or enhance those experiences in their own offerings.

BY ERIK PAYNE

Like in the classic Atari game, a solid offense is the best way to defend against outside companies coming between you and your members. The business models of these popular companies compete with credit unions, so know what makes them appealing to users and how to replicate or enhance those experiences in your own offerings.

VENMO

WHAT IS IT?

A peer-to-peer (P2P) payment solution that allows multiple parties to send payments to a single person for a shared bill — such as in a restaurant scenario.

WHAT IT GETS RIGHT

Users, who are mostly in the 18-to-24 age range, can sync their bank accounts, debit cards, and Venmo balances within the app and send money to or from accounts for free. Users can even send money requests and allow friends access to their funds. According to Business Insider, Venmo processed $468 million in transactions in second quarter 2014.

YOUR STRATEGY FOR DEFENSE

Many P2P solutions tend to work best in less formal scenarios. For example, Venmo charges users a 3% sender fee for credit card transactions, has a $2,999.99 weekly limit, and is not designed for merchant payments. This opens the door for credit unions to offer expanded usage scenarios — paying with a credit union credit card, paying international recipients or high-dollar amounts, making point of sale purchases, etc. — without extra fees and with full banking-level security.

PAYPAL'S ONE TOUCH

WHAT IS IT?

A solution from PayPal that allows shoppers to pay a bill at a participating mobile merchant with a single tap.

WHAT IT GETS RIGHT

One Touch eliminates the need to re-enter credit card numbers or remember a multitude of account usernames and passwords for electronic purchases, which ramps up convenience and checkout speed.

YOUR STRATEGY FOR DEFENSE

Single sign-ons have already proven a winning option with members for in-house channels like online/mobile banking, and using tokenization to hide personal payment credentials is a convenient way to extend that same level of convenience to financial interactions that occur outside your own walls. Pay close attention to options like QR codes, which require little to no preparation and no subsequent follow-up steps, over more extraneous processes that could delay the natural flow of the transaction.

STARBUCKS MOBILE WALLET

WHAT IS IT?

An in-house payment app that allows Starbucks customers to make point of sale purchases using a QR code.

WHAT IT GETS RIGHT

In addition being part of a loved brand, the app is tied to the type of quick-hit, low-dollar transactions where the convenience of a mobile wallet shines. Users can track purchases and earn rewards from their mobile phone — eliminating the need for the old-fashioned punch card rewards. According to PaymentsSource, Starbucks customers used the app for approximately 4.5 million transactions a week in 2013.

YOUR STRATEGY FOR DEFENSE

It takes compatibility with more than one merchant to bring real value to a mobile wallet. Although consumers might upload one or two credit cards to the Starbucks mobile wallet, the coffee merchant is unlikely to capture all of the payment vehicles — and thus all of the accompanying payment data — of its customers. Wallets built and managed by financial institutions, however, are a natural home for all card accounts, and the incorporation of merchant rewards are likely to make such options a top-of-phone choice over wallets tied to a specific store.

T-MOBILE'S MOBILE MONEY

WHAT IS IT?

A service that pairs a prepaid Visa card — which users can reload with cash at T-Mobile stores or by direct deposit — with a mobile app.

WHAT IT GETS RIGHT

Released in January 2014, the app/card combo is meant to be a financial services alternative for people that don't have bank accounts but do have smartphones. It lets users deposit and cash checks from the phone, withdraw money from one of 42,000 ATMs nationwide, and send money person-to-person. Fees for things like retail purchases, remote deposit capture, and ATM withdrawals are reduced or eliminated for T-Mobile subscribers.

YOUR STRATEGY FOR DEFENSE

Just because a consumer is unbanked doesn't mean they're low-tech or cannot benefit from the evolution taking place in the payments space. Rather than pushing these individuals into bare bones prepaid programs, look for ways to make these cards support and cut costs for mobile financial services and vice versa, across all segments of your member population.

SQUARE'S CAPITAL

WHAT IS IT?

A program that offers cash advances to the two million businesses that use the Square mobile card reader.

WHAT IT GETS RIGHT

In lieu of monthly interest payments, Capital borrowers repay the advance and a flat fee by giving 10% of their daily credit card sales to Square. Borrowers are eligible for an advance based on the volume of sales made using the reader, among other requirements, and can adjust their payments depending on the strength of their sales. Square spokesperson Faryl Ury says the company has advanced "tens of millions of dollars" through the service, reports foxbusiness.com.

YOUR STRATEGY FOR DEFENSE

Square has leveraged its existing relationships in the payments field to open new areas of business, but its flat fee offers no incentive for borrowers to repay the advance quickly. Even with the Capital offshoot, Square supports only a few components of a small business' daily operation. Compare this to the wealth of supporting services an established financial institution can provide and it's no contest. Still, credit unions should frequently look at the needs of the businesses they are serving to see where they might need to adjust their product offerings, loan qualification standards, or repayment plans.

PERSONAL PAYMENTS POWERED BY PAYPAL

How Wescom Credit Union leveraged a partnership with PayPal to offer a convenient way for members to make peer-to-peer payments.

BY ERIK PAYNE

As smartphones change how individuals pay their friends and family, Wescom Credit Union ($2.7B, Pasadena, CA) is developing its own person-to-person network by partnering with PayPal.

"The idea came from a group of folks who wanted to give our members the ability to send funds to others outside of the credit union," says Eli Martinez, home banking product manager at Wescom. "We wanted to give our members additional options than what they had today so they could transfer funds with a simple click and an easy interface."

Person-to-person payments are a growing concern for credit unions and other financial institutions that don't want to lose these transactions to third parties like PayPal. Of the 88% of US consumers who sent money to another person in the preceding 12 months, 31% used either an online bank-based person-to-person payment service or PayPal, according to an October 2013 survey of 2,500 people from Fiserv, which provides technological solutions to financial institutions. Most respondents, a full 56% in fact, still used cash.

That's small comfort to credit unions because nearly a third of respondents also said they never had enough cash on hand to pay someone. Among 18 to 24 year-olds that figure rose to 39%. So it's little wonder that 79% of the people surveyed said they would be willing to use a digital person-to-person payment service from their own financial institution.

ESTABLISHING THE SERVICE

For Wescom, however, establishing its own person-to-person payment network made less sense than piggybacking on PayPal's. The company, which posted $6.5 billion in revenue in 2013, not only offers users a network of businesses accepting the payments but also complex, layered security. Plus, the credit union wanted a simple intuitive design, one that new users could learn easily.

Members, Martinez says, aren't going to adopt a new payment technology if it isn't easier than the status quo. At the same time, he adds, "We want to make sure that we balance security and user experience."

So early in 2011 the credit union asked the company if it was interested in setting up a peer-to-peer payment network for Wescom's membership. PayPal provided Wescom with the blueprint, structure, and guidelines for the network, and the credit union did the rest. By August of that year, Wescom had launched SendMoney, its own personal payments network.

> “We wanted to give our members additional options than what they had today so they could transfer funds with a simple click and an easy interface.”

“It was pretty much a collaborative effort between both parties to get the interface done and approved,” Martinez says.

HOW IT WORKS

To use the payment service, member must download the app for iPhone or Android and link their Wescom checking account. Payments are sent through the PayPal network to the recipient’s email address or phone number and are automatically stored in the person’s PayPal account, should one exist. Otherwise, the recipient is notified through text or email that funds are available. To collect them, the recipient must open a PayPal account. Once the account is open, the funds can remain there, be used for online purchases at participating retailers, including Walmart, eBay, and Best Buy, or transferred into a traditional bank or credit union account.

Members may send between $1 and $500 per day to other people, with no limit on the number of transactions. The funds are withdrawn from the member’s Wescom account and are accessible from the recipient’s PayPal account immediately.

The app only allows funds to be sent, not received, and Martinez says that the program’s growth is somewhat limited by the number of online merchants accepting PayPal payments. Yet, Wescom has seen the number of transactions from the app grow over the past three years, from 1,200 in the first year to 6,000 today.

Wescom does not charge any fees from the transactions. For now, Martinez says, the service only appeals to a limited number of people and is intended to add value for those members rather than attract new members or generate revenue. But, he adds, it is an investment in the future because the next generation of members has already adopted the technology.

IMAGE COURTESY OF FISERV

THIS IS HOW THE CREDIT CARD CRUMBLES

Young members are shying away from credit cards. Here's why winning them back requires looking beyond the product itself.

BY AARON PUGH

Credit card loan growth for all U.S. credit unions was up 8.5% year-over-year as of third quarter 2014, according to Callahan & Associates' Peer-to-Peer analytics. Although this is positive news, it hides the fact that for young adults, the appeal of a new credit card isn't what it used to be. According to 2012 FICO statistics, the average credit card balance of individuals 18 to 29 has dropped by roughly $1,000 since 2007. What's more, approximately 16% of consumers in this age group don't even have a credit card; that's an increase of roughly 7% from 2005.

FICO partly attributes this drop to the additional requirements for borrowers younger than 21 put forth by the Credit CARD Act as well as to the student debt that is causing many young borrowers to become overleveraged early on. Unfortunately, by cutting all ties with credit cards during their financially formative years, young consumers might also fail to build the responsible usage experience and credit history needed to manage larger commitments, such as an auto or mortgage loan, later on in life.

There's no fail-safe way to quickly reverse this trend, but encouraging plastic usage early on, choosing rewards that speak to Gen Y, and creating solutions that make small businesses more card friendly can all help increase this age group's comfort with credit cards.

CREATE STEPPING STONES

Getting plastic of any kind into younger members' hands early on is an important steppingstone to cementing active credit card use later on. For some institutions, branded prepaid cards are the easiest way to start that process. Prepaid cards come with built-in safeguards that can help a young spender avoid trouble; but they also include certain fees just for the ability to use the card.

Debit offerings teach individuals how to spend responsibility. They also off the credit union the opportunity to implement a reasonable fee structure that can ultimately help modify bad behavior early on in the relationship. Many credit unions also offer prepaid-alternative programs that include a free ATM or ID card for children, a free debit card for teens, and finally the ability to apply for a Visa credit card for members aged 18 to 24.

Michigan Community Credit Union ($130M, Jackson, MI) issues credit cards to members who are younger than 18 and have parental approval and a joint signature. For the credit union, which has grown its unsecured credit card portfolio more than 9% since third quarter 2012, the option creates a safety net for teens that allows them to build their credit scores and teaches them about responsible spending — valuable benefits for a young member about to start college or life on their own.

RETHINK REWARDS

According to a 2011 study by Walden University, 81% of Gen Y individuals reported having donated money, goods, or services that year, making this the most common form of social action among that demographic. For this reason, it's not difficult to see why credit card products that help young users support issues they care about might be better received and have higher usage than those that do not.

Signal Financial Federal Credit Union ($309M, Kensington, MD) has a "Share The Road" Visa to promote advocacy, resources, and education for area bicyclists. It also has a Cooperative Development Foundation Visa, which provides support and assistance for a wealth of economic and social causes.

Likewise, by working with its reward program provider to offer what it calls "The Care Card," TECU ($70M, Wichita, KS) gives its members the ability to donate points earned to any charitable organization they choose.

"We realized our Generation Y members are passionate about giving back to their communities," said Kelly Martin, the credit union's associate vice president of operations, in a press release. "Our goals were to entice our current cardholders to use the card as well as capture the Generation Y audience and make The Care Card top of wallet for them."

Although factors beyond this card product and membership demographic are at play, TECU's unsecured credit card balances were up 61% year-over-year as of third quarter 2014.

BECOME A PAYMENTS ENABLER

According to an Intuit GoPaymentsurvey, roughly 55% of the nation's small businesses do not accept credit card payments. They either don't want to pay the fees or don't have the equipment and knowledge needed to handle card processing. Add to this the fact that Gen Y in particular flock to such businesses — according to UK-based SEO company BrightLocal, roughly triple the amount of U.S. individuals in that age bracket reported seeking out small, local merchants online almost every day compared to their middle aged counterparts —and credit unions have a golden opportunity.

Gen Y doesn't use cards and small businesses don't offer the option. But by better supporting these merchants' card processing needs, credit unions can facilitate better relationships with business owners — a full 8% of which are Gen Y themselves, according to the Kauffman Foundation — and encourage more card use among membership of all ages.

America First Credit Union ($5.8B,Ogden, UT) gives away cobranded mobile payment processing devices to its small business clients as way to cement these relationships. Similar to Square, the device plugs in to any tablet or mobile phone and allows the user to process card transactions — as well as phone and email orders — more quickly and efficiently, says Blake Weathers, the credit union's vice president of business lending and account services.

The credit union has offered the device since September 2013, and approximately half of its roughly 800 business members use them. Merchants pay per swipe at a rate that is 10 basis points lower than competitors and 35 basis points lower for card not present transactions. Plus, small businesses that earn $2,500 a month or less can avoid paying extra fees for their processing.

"We're just starting to market this and expect it to grow even faster in the future," Weathers says. "Beyond cost savings, the other advantage to this over other mobile payment competitors is that both the credit union and our merchant services provider can offer round-the-clock, local customer service to these businesses."

As with many credit union products, it seems future success lies in the hands of the younger generation. And today's younger generations do things a bit differently than their predecessors. One thing that never changes, however, is members need a financial institution they can trust and rely on to make decisions that are in their best interest. Credit unions that offer programs that encourage smart, responsible credit card usage today will find they have loyal members tomorrow.

DISINTERMEDIATION'S DISRUPTION IN THE MOBILE PAYMENTS SPACE

How companies such as PayPal, Amazon, Apple, and Google have disrupted the credit union mobile payments market.

BY ELAN FINANCIAL SERVICES

Nowadays people are more glued to their mobile devices than ever. We live in the digital age, where people are connected online 24/7 and accessibility is key. Therefore, it comes as no surprise that online shopping with mobile devices has been rapidly increasing. According to Forrester's research, U.S. mobile payments will reach $90B in 2017, a 48% compound annual growth rate (CAGR) from the $12.8B spent in 2012. Credit unions need to stay knowledgeable with the advancing technology and payments innovations or else they face disintermediation as a real threat.

What exactly is disintermediation? One can think of it as disruptions in the mobile payments space. Once intermediaries such as Paypal, Amazon, Apple, and Google Wallet provide members with easy mobile payment forms, these alternative payment providers are getting in the way of the direct relationship that consumers have with their credit union. MasterCard however, have designed their wallet so as not to disintermediate issuers' brands.

FIGURE 1: INTERMEDIARIES IN THE MOBILE PAYMENT SPACE

There are five major effects of disintermediation:

1. Change in revenue streams, potential volume and loss of interchange fees due to changing credit, and debit and Automated Clearing House (ACH) mix.
2. Reduced data transparency to issuers due to new merchant of record.
3. Security threat due to proliferation of personal information to various intermediaries and varying levels of data security in new players.

4. Credit card and brand become less visible for members.
5. Member's experience at risk due to confusion over who is responsible for payment and fraud.

Plastic credit cards are not going away either. Even under the most aggressive estimates, only 25% of credit card transactions will be mobile in ten years.

How should your credit union stay competitive with advancing technology and payments innovations? You should focus on developing innovative payments strategies, leveraging new apps or digital wallets to compete for this share of the market. Without these steps to remain competitive, you will allow these intermediaries access to your credit union members to offer simpler, more accessible or financially attractive alternatives to traditional payments.

Investments need to be made in infrastructure and technology. Intermediaries such as Paypal and Google Wallet have made entry into this market seem easy. PayPal hopes to shift the member base away from credit to cheaper funding sources, such as ACH and stored credit. Not only does this model threaten a credit union financially due to a loss in interchange fees, but longer term members could begin to wonder what their credit and debit cards are providing them that alternative payment providers cannot. If these intermediaries control the members' interface, credit unions also risk losing direct relationships with their members and reduced brand value. Once members lose touch with card brands, you can no longer differentiate your credit card products.

FIGURE 2: PAYPAL AND GOOGLE DOMINATES MOBILE COMMERCE

PAYPAL	GOOGLE WALLET
The PayPal experience includes: • Offers both in-store and online. Manual or auto check-in with real-time 2-way location-based notifications • Digital gift cards through a partnership with Blackhawk • Pay at table • Bill Me Later — instant 0% APR credit • One-time use tokenized payment codes • Beacon alerts customer and merchants to shopper presence	Now on version 3.0, Google has integrated their online wallet and ecommerce support with their mobile offering. The Google Wallet experience includes: • "Buy With Google" widget to websites and mobile apps • Google Companion MasterCard prepaid card • Send money (P2P) via mobile app or via Gmail, Offers, and Loyalty Card support • New standards for Host Card Emulation (HCE), a cloud and token-based payment technology

Disintermediation represents a real change and potentially a real threat within the payments landscape. A credit union should look to tap at least a single individual internally to keep abreast of developments in the market and to decide when it's the time to act. In addition to making the investments individually, credit unions should align with the right partners that can help them navigate this new digital world.

ELAN'S CLIENT RESOURCE CENTER: INNOVATION AT IT'S BEST

At Elan Financial Services, we value our partners and have built an industry-leading online reporting and management tool, called the Client Resource Center (CRC). The CRC provides application processing, online reports, marketing and training materials for the successful management of a credit card program. Beneficial features include:

- Account inquiries and servicing (make branch payments)
- Receive service support and issue resolution protocols
- Opt into branch and direct marketing promotions to drive growth
- Engage with interactive training modules
- Download and view comprehensive reports such as:
  - – Application status and processing
  - – Product performance
  - – Promotions tracking

92% of credit unions with over $1B in total assets that partner with an agent credit card provider have chosen Elan.*

*SNL Data: Credit Unions measured by asset size as of 6/30/2014.

For more information, visit **www.cupartnership.com**

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