



Research Unit for Financial Inclusion

The DWP CUEP Review

***An independent research study into the
credit union experience of the Credit Union
Expansion Project***

Key findings



**Department
for Work &
Pensions**

Paul A. Jones, Nick Money and Ralph Swoboda

2nd August 2016

Liverpool John Moores University



DWP Foreword

Earlier in the year, the DWP commissioned Liverpool John Moores University to undertake an independent review and research study into the relationship between credit unions and the introduction of the new CUEP operating model.

DWP would like to thank all those credit union managers and board members who participated in the research. DWP is grateful for all their thoughts and reflections on CUEP transformation and for the support given the study.

DWP is pleased to introduce this summary of the full research report as submitted by the research team. DWP confirms that this summary accurately records the views of participants expressed orally and in writing to the research team during the period April to July 2016. The report does not contain the personal views of the research team.

DWP recognises that these interviews and survey were carried out at a time of uncertainty around the timescales for delivery of CUEP and the IT platform functionalities. The research should be viewed, therefore, as a snapshot of how the credit unions who participated perceived CUEP at that time.

DWP Ministers and Senior Management Team believe CUEP to be an incredibly important project for the credit union sector to improve its service offering and expand its reach and membership through co-operative working and modernisation in a sustainable way, and we want CUEP to succeed. DWP recognises that significant progress has been made since June, and we are particularly pleased to see the first credit unions going live on the Agiliti Banking Platform – retailCURE and East London Credit Union.

ABCUL and Cornerstone have made considerable improvements in the intervening period in many of the areas that drew criticism from credit unions in this research. The DWP is aware action has been taken to increase the frequency and quality of communication to credit unions, and a new role has been created and measures put in place to improve engagement and participation of credit unions in the design and delivery of CUEP.

DWP does not see migration to the Agiliti platform as the full extent of transformation but the start of a journey towards achieving CUEP aims and objectives. The DWP will continue to work with and monitor project delivery by Cornerstone.

Finally, DWP would like to thank Paul A Jones, Nick Money and Ralph Swoboda, the research team at the university, who were able to undertake the study to our full satisfaction.

Frank Lanaghan

Frank Lanaghan

Programme Manager, Credit Union Expansion Project,
Finance Services and Banking, Department for Work and Pensions

Frank.Lanaghan@dwp.qsi.gov.uk

Contents

DWP Foreword	1
Introduction	3
Acknowledgements	3
The research study	3
The role of the research team	4
The findings of the study	4
CUEP transforming credit unions.....	4
CUEP non-transforming credit unions.....	6
Large credit unions outside of CUEP	8
Key questions arising across the three groups	9

© Research Unit for Financial Inclusion, Liverpool John Moores University

August 2016

Authors: Paul A Jones, Nick Money and Ralph Swoboda

Corresponding author:

Paul A Jones PhD
Research Unit for Financial Inclusion
Faculty of Education, Health and Community
Liverpool John Moores University
79 Tithebarn Street, Liverpool, L2 2ER

Email: p.a.jones@ljmu.ac.uk

Introduction

The Department of Work & Pensions (DWP) commissioned the Research Unit for Financial Inclusion at Liverpool John Moores University to undertake an independent academic research study into credit union experience of the Credit Union Expansion Project (CUEP).

The aim was to establish:

- The readiness of CUEP credit unions for transformation and migration to the new platform and the impact of transformation on their future sustainability.
- The reasons why some CUEP credit unions decided not to proceed to transformation and migration onto the new platform.
- The barriers preventing larger credit unions signing up to the CUEP Target Operating Model and to the process of transformation.

This paper outlines the key findings of the study, carried out during May, June and July 2016 by Paul A. Jones, Nick Money and Ralph Swoboda.

Acknowledgements

The authors would like to thank all the credit union CEOs and board members and Cornerstone leaders who took part in the study and who shared their reflections and ideas.

The report could not have been written without their active commitment and participation.

The research study

The study investigated the experience of three groups of credit unions:

- Credit unions participating in CUEP that have committed to transformation and migration to the Agiliti platform.
- Credit unions in CUEP that decided against migration to the Agiliti platform.
- A number of larger credit unions that remained outside of CUEP.

The research methodology was based on a series of structured, in-depth interviews with 21 credit union managers (9 CUEP transforming, 7 CUEP non-transforming and 5 non CUEP credit unions) and an online survey of all 74 CUEP credit unions. There were 24 survey responses from transforming CUEP credit unions (73 per cent of 33 credit unions) and 28 from non-transforming CUEP credit unions (68 per cent of 41 credit unions). Overall there was a 70 per cent return (52 returns out of 74 CUEP credit unions).

Cornerstone's views on the development of CUEP were solicited through an offline questionnaire.

The role of the research team

The role of the research team was to record and to categorise the thoughts, opinions and feelings of the credit union CEOs and directors that participated in the study without endeavouring to make judgements on their perspectives.

The findings of the study

This document is a summary of the complete report, which was delivered to DWP on 11 July 2016 and which reflects the views of credit unions that were expressed during the research period and up to that point in time.

The complete report is 94 pages long and consists primarily of extensive, verbatim quotes from credit union people that were recorded and later transcribed from their in-person interviews, written comments supplied by respondents in answering the on-line survey, and data tables detailing the results of that survey.

The findings of the study do not reflect the views or opinions of the research team. The findings arise directly from the interviews and responses of credit union participants, which are documented in the final report. This summary is to fulfil the commitment made by the research team that a report on the project would be provided to participating credit unions.

CUEP transforming credit unions

- All currently remain within the process of transformation but less than half are excited by the prospect of transformed capability.
- 92 per cent of survey respondents (22 out of 24) said that they were confident when they joined CUEP that participation in transformation would be sufficient to enable them to achieve their business objectives. Now only 46 per cent are confident (11 out of 24) that migration to the Agiliti platform will enable them to achieve their business objectives.
- For all, 'transformation' is now viewed only as migration to the Fiserv Agiliti platform - the wider strategic concept of collaborative business and organisational transformation (including a wider range of products and more robust marketing) has mostly been lost.
- All interviewees are unclear on price and functionality of Agiliti. For some this is a major worry, since steadily increasing cost projections are undermining financial plans on which their decisions to participate in transformation were originally based.
- Only 33 per cent of survey respondents (8 out of 24) are confident that they are aware of the medium to longer-term costs of migration to the Agiliti platform.
- 38 per cent of survey respondents (9 out of 24) say that they are fully aware of the intended functionality of the Agiliti platform and how it may improve the product and service offer.
- 25 per cent of survey respondents consider the Agiliti platform is value for money.

DWP CUEP INDEPENDENT REVIEW SUMMARY

- Only 8 per cent of survey respondents (2 out of 24) say that their commitment to proceeding to transformation on the Agiliti platform has increased since they signed the contract. 46 per cent say it has declined (11 out of 24).
- Some are also concerned that the platform will not give them the functionality and flexibility that they require, and that they will have to consider building in work-around systems. This is particularly the case for credit unions on the Credit Union Current Account (CUCA) programme.
- All interviewees expressed frustration with delayed implementation. For some this is viewed as resulting in major risks to credit union operations and even of financial loss.
- The complexity of setting up the Agiliti platform and the sponsor bank partnership was generally recognised by interviewees. However concerns were expressed as to the perceived frequent lack within Cornerstone of the knowledge required to manage this complexity. Some CEOs stated that new complexities often arose out of the blue.
- Some are re-evaluating their business technology requirements and are considering alternative solutions. The market place has changed since the start of CUEP (e.g. with pre-paid card offers and access to basic bank accounts), and some CUEP credit unions are moving away from the idea of being a full service financial provider and concentrating instead on improving their performance as basic savings and loans institutions.
- All interviewees expressed strong dissatisfaction with communications from CUEP. Only one person out the 24 replying to the survey said that the quality of communication and information received from Cornerstone/CUEP was good or excellent. 58 per cent (14 out of 24) said it was poor or very poor.
- A majority of interviewees see themselves as having no voice within CUEP and being talked at/down to (“condescending”) by CUEP/Cornerstone personnel. Many stated they sense a lack of respect for credit unions from CUEP.
- 38 per cent of survey respondents felt that Cornerstone/CUEP engaged positively with them and listened (9 out of 24).
- The majority of credit unions interviewed said that their commitment to transform is based on faith in ABCUL/CUEP to deliver.
- Credit unions completed a business planning template at the outset of CUEP but most interviewees did not regard this as a rigorous financial and organisational diagnostic. They stated that no ongoing readiness review is taking place given the delays and changing circumstances.
- Only 38 per cent of survey respondents (9 out of 24) said that the organisational and financial assessment of the credit union undertaken by CUEP prior to being accepted for transformation was rigorous.
- For some, this faith in the Cornerstone/CUEP capacity to deliver is being seriously challenged; their doubts are heightened by the level of staff turnover they perceive within CUEP.

DWP CUEP INDEPENDENT REVIEW SUMMARY

- A minority are now reassessing their participation in transformation due to price changes, delays or re-evaluation of their technology requirements. Some say they are demoralised by the CUEP experience.
- While the intensity of views varied, most of those interviewed considered that current governance of the project undermined their trust and confidence in Cornerstone/CUEP to deliver. For some, ABCUL ownership is a contributing factor or a hindrance in itself. There are calls for reform and for greater credit union participation on the Cornerstone board.
- Some credit unions consider that there is a lack of visionary leadership from CUEP/Cornerstone to motivate a programme of strategic and fundamental change.

CUEP non-transforming credit unions

- All interviewees spoke of the appetite of their credit union for growth and expansion and agreed that modern electronic systems and IT are critical to future success.
- All were of a mind in thinking that CUEP was a good concept at the outset, based on sound principles of collaboration and organisational change.
- However, all interviewees felt that CUEP transformation has degenerated to migration to the Agiliti platform, and the wider strategic concept of organisational transformation has been lost.
- 89 per cent of survey respondents (25 out of 28) said that they seriously considered joining the transformation programme and migrating to the Agiliti platform.
- 96 per cent of survey respondents (27 out of 28) said that they undertook an organisational and financial assessment in relation to transformation prior to making the decision not to transform.
- All seven interviewees were confident that their credit unions were stable financial institutions and expressed concern that the cost of transformation would undermine that stability. They stressed how much they had tried to make the costs of transformation stack up in the business plan over even a considerable period of years. But the costs were seen by all as too high; for most they were prohibitive.
- They also worried that the platform was not affordable for transforming credit unions and that some credit unions could fail as a result of migration to Agiliti.
- According to the online survey, the main reasons for CUEP credit unions deciding not to migrate to the Agiliti platform were:
 - The cost of operating the platform through Cornerstone (93%; 26 out of 28).
 - The impact of the cost of the platform on the credit union's sustainable development (75%; 21 out of 28).
 - The requirement to sign a 10 year contract (75%; 21 out of 28).
 - Lack of confidence in the capability of CUEP to deliver a programme of transformation now (61%, 17 out of 28).
 - Lack of confidence in the capability of Cornerstone to maintain a quality and cost-effective service into the future (61%; 17 out of 28).
 - Lack of clarity as to the functionality of the Agiliti platform (50%; 14 out of 28).

DWP CUEP INDEPENDENT REVIEW SUMMARY

- The platform offers functionalities that they do not currently require (39%, 11 out of 28).
 - Governance issues in relation to the link between Cornerstone and ABCUL (39%, 11 out of 28).
 - Lack of other critical transformation components beyond the Agiliti platform (29%, 8 out of 28).
 - The platform fails to offer functionalities that credit unions need right now (e.g. a functioning current account with a debit card) (25%; 7 out of 28).
- 50 per cent of online survey respondents (14 out of 28) said that they were still unclear as to the functionality of the Agiliti platform.
- 10 per cent of survey respondents (3 out of 28) said that they considered the Agiliti platform to be value for money. However, none of the CEOs interviewed were convinced that migration to the platform would give them sufficient growth in lending and income to justify the expense.
- Some interviewees spoke of another more fundamental reason not to migrate to Agiliti: doubts had arisen as to the fit between their individual credit union business model and the reality of transformation onto Agiliti. They were not convinced that the collaborative business model on which the Agiliti platform was based suited the interests of their credit unions and their members.
- These interviewees said that their credit unions wished to remain essentially savings and loans institutions, without the need for a current account. Straight through processing would be advantageous, if it were affordable, but for now they felt that they could operate without it.
- For these credit unions, even though they recognised Agiliti to be a quality product, they characterised it as considerably over-specification for their needs.
- The other credit unions interviewed had the opposite concern: the overall platform lacked sufficient flexibility and failed to provide some required business functionalities, such as a debit card, ability to make BACS payments and set up budgeting and bill payment accounts.
- About half of the people interviewed were concerned about the autonomy and control of their credit union in relation to a collaborative business model and the operation of the Agiliti platform. They mostly disagreed with the model of CUEP/Cornerstone managing a total solution on behalf of their credit union.
- Only 7 per cent of the non-transforming survey respondents (2 out of 28) said that they were confident that Cornerstone had the ability to lead the fundamental change of transformation within the sector.
- The lack of confidence in CUEP/Cornerstone to deliver arose from their perception of the constant changes in personnel both at senior management and operational levels, the delays in implementation of the platform, the uncertainties about cost and functionality, and the lack of delivery and performance on some of the back office products and services.

DWP CUEP INDEPENDENT REVIEW SUMMARY

- The level of knowledge of the credit union business and operations within the Cornerstone/CUEP team was rated less than satisfactory by survey respondents.
- Only 18 per cent of survey respondents (5 out of 28) were confident Cornerstone would add value as an intermediary through which credit unions receive services from third party providers with whom it contracts.
- All interviewees expressed strong dissatisfaction with communications from CUEP, of which they had received none since their credit unions opted out of transformation. 63 per cent of survey respondents (17 out of 27 responding to that question) judged communication from CUEP/Cornerstone to be poor or very poor.
- Interviewees were critical of CUEP/ Cornerstone management but in general had a different and much more positive opinion of frontline CUEP and DWP staff.
- All were of the view that CUEP/Cornerstone does not have credibility as a provider due to delays, poor communications, and a perceived lack of knowledge of the credit union business within Cornerstone/CUEP.
- Despite the criticisms of CUEP/Cornerstone, most CUEP credit unions could identify specific benefits they had gained from being part of the programme. These varied between participants but included access to the Automated Lending Decisions (ALD) system, the growth payments from the programme, and their increase in knowledge and awareness around strategic and business development gained from participation.
- A number of interviewees felt that current Cornerstone governance and ABCUL ownership is an obstacle to participation; some held very strong views. However, for others it was not so much an issue. There were major concerns expressed, however, at the lack of transparency around the relationship between CUEP and ABCUL. Several asked why Cornerstone accounts were not shared more openly.
- None interviewed could be easily attracted back to the existing Agiliti IT offer; some might be interested in other professional services and in the offer if it were radically restructured. This would be dependent on their achieving confidence in a reformed Cornerstone.
- 43 per cent of survey respondents (12 out of 28), however, said that they could envisage revisiting the decision not to transform on to the Agiliti Platform
- Three have switched to a new core IT provider in last 12 months; others are actively looking.
- Most interviewees described CUEP as having lost its direction as a movement-wide programme of fundamental change.

Large credit unions outside of CUEP

- All of those interviewed agree that technology is critical to their credit union in the future – they refer to “straight through processing” as a necessity; all bar one are seeking current account functionality; three consider their current system to be inadequate for the longer-term.

DWP CUEP INDEPENDENT REVIEW SUMMARY

- All thought CUEP was originally a good concept in principle, although three said that they had received no information about it. They stated that they had never been directly approached by CUEP/ Cornerstone or invited to participate.
- Those who had investigated the offer thought the CUEP IT platform is currently too expensive for their credit union. They were also against any requirement to purchase additional services through Cornerstone, over and above the Agiliti platform and the agency banking arrangement.
- Two credit unions had invested recently in a strategic IT solution; two are actively looking for a new solution and one is about to start a review of IT needs but is currently content with its existing provider.
- The three credit unions that had not yet identified a new solution (including the credit union undertaking the IT review) said that they would be open to considering the Fiserv Agiliti platform if the offer was radically reframed, less expensive and offered by an entity independent of ABCUL. They all asserted that they did not have closed minds to considering it as a possibility for their credit union.
- A debit card is a critical requirement for two credit unions; both are seeking a debit card solution from other providers. The fact that the CUEP offer did not include a debit card was a deal breaker for at least one credit union.
- All think Cornerstone governance and ABCUL ownership is a critical obstacle to credibility and widening participation in CUEP/ Cornerstone throughout the sector. They spoke of conflicts of interest, the inappropriateness of the trade association as a service provider, and doubts about the expertise within a trade association-controlled body to lead credit union business growth and development.
- A majority were seeking a Cornerstone solution owned by the movement – by its customers – and perceived it to be currently owned by ABCUL.

Key questions arising across the three groups

- 1. Transformation, the target business model and the new technology platform -** For CUEP participants, whether transforming or not, “transformation” has reduced to migration onto the Agiliti-based platform. Clearly, the Agiliti platform is transformational from an operating model perspective, since it is far more technologically advanced and functionally extensive than existing credit union arrangements. The original intention, however, was that transformation should be fundamental change of the business model, aimed at catering to a wider set of members and needs by adding new products, services and channels. This was not the current experience or focus of these transforming credit unions.
- 2. Alignment of the platform and business objectives -** It appears that only about a dozen transforming credit unions remain fully confident that migration to the Agiliti platform will enable them to achieve their business objectives. Most of the non-transforming credit unions are also unclear on this.
- 3. Price –** Almost all credit unions, from all groups, commented on price as a barrier or concern. It is always a tendency of customers to want supplies to be cheaper;

DWP CUEP INDEPENDENT REVIEW SUMMARY

however in this case overall cost seemed genuinely to be seen as a threat to success and sustainability by many credit unions, including those transforming.

4. **Platform Functionality** – Few credit unions are confident that they understand the functionality that the new platform will provide. The materials from CUEP to date do not clarify this for them. In addition, some feel that there are features that they do not need (or want to pay for), while other features are missing or limited: the lack of a debit card has deterred current account-issuing credit unions, while it is suggested that there are increasing references to ‘workarounds’ on basic credit union processes.
5. **Credibility of CUEP/Cornerstone** - The credibility of the CUEP/Cornerstone brand in the credit union movement has been significantly damaged by changes to platform functionality, by changes to personnel and leadership in particular, and by repeated delays and poor communications.
6. **Governance of Cornerstone** – A minority of credit unions interviewed from all the groups, including some of the largest and most influential in the sector, had strong views on the ownership and control by ABCUL of CUEP/Cornerstone. These credit unions felt that this risked the interests of the service organisation (and therefore its customers) being subordinated to those of a trade association. By contrast, some credit unions (all of which were ABCUL members) felt that they could trust CUEP because of the link to ABCUL.
7. **Alternative technology** – Some credit unions expressed considerable confidence in the capability and resilience of the Agiliti platform, regardless of their views on CUEP, price etc. A number of credit unions from each of the three groups, however, stated their belief that the Agiliti platform offered a level of capability – and consequent cost – that most credit unions did not need (or could not afford), and that may in fact not provide some core credit union processes. Some of these credit unions queried whether a simpler system could not have been upgraded to deliver a narrower but effective and affordable savings and loan business model.