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Title: The Next Generation Of Performance Metrics
Blurb: A new way of looking at data helps leaders look beyond traditional definitions of success.
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Credit union executives have traditionally relied on routine bank performance metrics to evaluate the performance and health of their institutions. Metrics such as return on assets, expense ratios, and delinquency percentages are no doubt important; however, leaders must also look beyond traditional definitions of success to better assess the unique role of credit unions in America's modern financial space. In addition to monitoring the bottom line, credit union executives must consider aspects such as how the institution is helping its members, advancing its core value propositions, and distinguishing itself from for-profit institutions. To measure these kinds of outcomes, leaders must look at standard metrics in a new way, re-examine neglected metrics, or consider metrics that in the past have been too difficult to assemble or interpret.

Since its inception more than 25 years ago, Callahan & Associates has helped credit unions evaluate their financial performance as well as broaden the scope of what constitutes a successful credit union. Quarterly performance data helps leaders establish a solid monetary foundation, but those leaders must then dig deeper to better understand the credit union's strengths and weaknesses. Callahan helps industry decision makers strategically employ all kinds of metrics, broken into four categories here, to direct better long-term outcomes.

Market Success Measures

Today, data is more readily available in greater amount and detail than ever before. Credit unions can take evaluations of their products and services to a whole new level by slicing and dicing this wealth of information in new and interesting ways.

For example, credit unions can track and compare deposits all the way down to the branch level, allowing managers to answer questions such as: What percentage of local deposits do we hold? Who has the highest market share of deposits in our local area? Who is doing the best job of attracting deposits in our local area?

Managers can compare year-over-year changes and growth in deposits with competitors in specific markets. Such information helps managers make the most out of existing branches as well as decide where to locate new ones. Similar information is available for auto lending, which allows managers to ascertain the market share of competitors in specific cities or counties as well as determine the market share of lenders within a particular dealership. Tracking such data allows managers to measure the lending growth at a particular dealership. If there is no growth, the credit union can meet with the dealer to discuss possible obstacles in the lending process.

Additionally, mortgage data is available that breaks out information such as number of loan applications received, number of loans approved, number of loans denied, and total funded loans with amount funded for all lending institutions. With this data, a credit union can compare its own performance with the applications it receives. For example, a credit union can use the information to determine whether it needs to attract more applications or concentrate on converting approvals to funded mortgages.

The data also shows how an institution's rates and fees perform in a marketplace. Management positions rates and fees expecting certain results, but thinly sliced local data shows how those rates and fees are actually received by consumers. Members have options, and available data shows how members are using — or not using — those options.

It's not only the raw data but also the source of data that is expanding. Credit bureaus are uncovering trends by taking pieces of information from individual credit files and aggregating like data from tens of thousands of individuals. Such methods provide not only aggregated present scores but also movements over the past 12 months.

TransUnion offers a map of the United States that shows county by county where credit rates are shakiest and where they are the most reliable. The map reveals pockets of solidity in regions of weakness and vice versa. The credit bureau also provides information such as average credit balances by county, number of open credit cards per county, and delinquencies per county. Using this information, a credit union can determine if it is faring better or worse than its competitors and identify where fresh opportunities might lie.

Cooperative Success Measures

Credit union leaders can talk about the importance of operating within a cooperative environment, but there are scant ways of measuring how the institution is improving itself as a cooperative. Callahan has long advocated a metric called Return of the Member (ROM), which measures what members are gaining from membership in the credit union. Callahan has improved its ROM metric over the years but the basic factors — such as average dividend paid, loans per member, and share drafts per member — remain the same. The higher a credit union's ROM score, the better it is at rewarding credit union membership.

Some credit unions track how much they have collectively saved members through refinancing. Others use the Net Promoter Score (NPS) to measure member service. One credit union even tried to quantify member benefit by gathering fees and rates on checking accounts, money market funds, IRAs, share drafts, signature loans, mortgages, and auto loans from 21 competitors. The credit union took the difference between its rates and the competitors' average rate in each category and multiplied the annual balances in the credit union to calculate aggregate benefit to members, for example $30,000 to the whole membership in lower credit card charges. It added the individual categories then divided by number of members to arrive at an annual benefit per member.

Credit unions have long pledged allegiance to the Seven Cooperative Principles, but it is difficult to assess how they are performing relative to each principle. A metric under development by CU*Answers in Michigan takes the form of a point-rewarding questionnaire. Survey questions about the democratic member control principal include: Do you advertise elections as zestfully as you do loan specials or branch openings? Do you have elections even when there are no contested seats? What is your 3-year member voting percentage? How many ways can members vote?

The survey provides a score that indicates gradations of success, or lack thereof, at conforming to the principle. The survey is available on the Cooperative Score portion of cuanswers.com. CU*Answers does not consider this survey and scoring mechanism fully mature and encourages feedback so the survey evolves into a more exacting and useful form.

DESIGN NOTE: SIDEBAR IN THIS SECTION BY CU*ANSWERS ON THE 7 COOPERATIVE PRINCIPLES

Financial Performance Measures

Financial performance measures are already in wide use by credit unions and banks. These include balance sheet ratios, income statement ratios, ROA, loan balances, and the like. Credit unions should not neglect this level of analysis, as this quarter's expense ratio or non-interest income ratio are important for executives and the board to evaluate a credit union's performance today.

In many cases, however, a deeper examination yields greater insight. Comparing operating expenses to all expenses or non-interest income to all income over the past 10 years sheds light on how a credit union has changed, thus providing guidance on where it is headed. Gradual, year-to-year increases easily go unnoticed, but an increase in non-interest income from 7% to 25% over 10 years shows a clear decline in lending. The same concept holds true for analyzing the divisions of a credit union's loan portfolio. Using this kind of analysis, many credit union leaders have discovered that what they traditionally considered a core strength was actually waning in popularity.

For years credit unions have benchmarked their performance against credit unions of similar asset size or field of membership. In fact, the ability to build a peer group for proper benchmarking is a hallmark of Callahan's Peer-to-Peer software. Credit unions can glean a lot of insight from the performance of other credit unions that work with the military, an entire community, or a single SEG. And the considerations for all credit unions with $250-$500 million in assets is significantly different from credit unions with $250-$500 million in assets and 15 or more branches.

Peer group comparisons help a credit union's leadership identify strengths and weaknesses relative to other credit unions operating under like business models. But decision makers should also benchmark the credit union's performance against competitors in their geographical region. After all, the economic condition of a specific location might help explain why a credit union looks good when compared to peers around the country but is slipping among credit unions in its own region. Minute data is now available that allows analysts to thinly slice information and evaluate performance in focused fields. For example, a credit union in Plano, TX, can examine the Plano market, which is different from both the Dallas or broader Texas markets.

Non-Traditional Performance Measures

Using historical data and peer benchmarking are useful ways to gain a more complete picture of a credit union, but limiting performance metrics to traditional measures stymies management's ability to make the best decisions for the credit union. In today's data-driven environment, management must think larger in terms of what metrics are available and how they can reveal new opportunities.

Credit unions that have set goals in nontraditional or nonfinancial areas have the opportunity to define success by their own terms. Once they determine that definition, there are ways of customizing metrics to more accurately measure performance. For example:

- Affinity Plus FCU ($1.7B, St. Paul, MN) aims to be the most trusted financial institution in its market. It evaluates its progress in obtaining this goal by measuring the increase in member activity and new member referrals by current members.
- Pentagon FCU ($16.0B, Alexandria, VA) sets its products and services apart by offering aggressive pricing. The credit union continually strives for a lower operating expense ratio (OER), thereby allowing it to deliver products at lower prices. Through diligent monitoring, Pentagon dropped its OER from 2.5% in 1999 to 1.35% in first quarter 2013, that's nearly half the 2.64% average ratio for credit unions nationally with $1 billion or more in assets.
- The goal at BCU ($1.9B, Vernon Hills, IL) is to succeed in four areas — financial, operations, human capital, and member experience — and it uses a balanced score card to measure activity in these areas. On its scorecard, SEG penetration helps measure financial success, service revenue income helps measure operational success, employee retention helps measure human capital success, and member satisfaction surveys help measure member experience success.

The go-to metrics of the past are perfectly fine for measuring traditional measures of success. But the world is evolving — by data gathering methods and analysis capabilities to say the least — and credit unions must hold themselves to a different standard than for-profit financial institutions. "Fine" is no longer good enough, and credit unions must now consider both previously neglected and new ways of evaluating their performance. The public certainly is.

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