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CO-OP Financial Services Enables Credit Unions to Support Their Members

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CEOCFO: ***Mr. Clark, would you tell us the idea behind CO-OP Financial Services?***
Mr. Clark: CO-OP is a member-owned credit union service organization. What that means is that we are by owned by approximately 1,200 credit unions across the US. We are in place to allow those credit unions to utilize our services.

CEOCFO: ***What is the range of your services?***
Mr. Clark: We provide primarily processing services in the payments world. We provide credit card and debit card transaction processing services. We also manage the two best-known consumer brands in the credit union industry – CO-OP ATM, a nationwide network of surcharge-free ATMs; and CO-OP Shared Branch, a nationwide network of branches. Shared branching is unique to the credit union world in that members can walk from one participating credit union to another and transact their business as if they were in their own home branch. On top of that, we provide call-center services.

> **"As a manager, I look for people on my team who are thought leaders, able to think outside the box. We do not want somebody who is just focused on driving the bottom line because that does not always solve our problems. Driving the bottom line is important but the reality is that we have to be able to put ourselves in the membership and our owner's shoes and make their lives better."- Todd Clark**

CEOCFO: ***What is the challenge in branch sharing?***
Mr. Clark: It is not terribly challenging from the perspective that once you set up the interfaces, it becomes a relatively easy service. However, getting it set up initially is sort of a big thing; you can imagine integrating 5,500 different branches with multiple core platforms and multiple sets of rules and the like. Once you get up and running, running it is not difficult, it is just managing rules and systems to flow the transactions.

CEOCFO: ***Are credit unions at all concerned that members will jump to another credit union when they see another feature they like better?***
Mr. Clark: Administering some of those rules is part of it. One of the rules is that you are not allowed to recruit other credit union members. In the credit union space, the members tend to be very loyal to their credit union. Most of the credit unions in the country started out with a membership base and those were the only people that could join. Many years ago

most of them converted over to a more community-type structure. You will find the vast majority of their base is still the people who worked for a particular company when the credit union started.

CEOCFO: ***What is the competitive landscape?***
Mr. Clark: The competition is fierce. The same people who sell to banks and other financial institutions also try to sell to credit unions. We compete with large companies such as Fiserv, FIS and First Data, but interestingly enough we also partner with some of those folks. The whole payment space is very much a cooperative, service aggregation model. You buy services and bundle them to create your own specific plan. That is the goal of CO-OP: providing value-add and the right combination of services to make sure that we are relevant to our credit union ownership.

CEOCFO: ***Does the credit union need to be part of your organization to take advantage of the services?***
Mr. Clark: We are owned by 1,200 or so of our client credit unions, but we have about 3,500 credit unions that we service. The only difference is if you own a share of the cooperative then you are eligible to receive the dividend check – known as patronage – at the end of every year. Depending on the amount of business you do with us, that dividend check could easily pay for your share. It is easy to join, all you have to do is be a credit union and buy a share of the company.

CEOCFO: ***How do you gain attention and convince a credit union to at least look at what you have to offer?***
Mr. Clark: We have a large industry presence. We attend conferences, including our own annual conference known as THINK (#coopthink). We have a large social media presence. We have worked hard to be the thought leaders in the space, publishing white papers on a regular basis on different topics and subjects. We have a sales team and relationship team across the space. CO-OP is currently in the vast majority of credit unions in some form or fashion. We may not have all of our products with every client, but we have at least one of our products in most credit unions. There are about 6,000 credit unions total in the United States.

CEOCFO: ***How do you change the mindset of a credit union and move them along to more modern ways of doing things?***
Mr. Clark: Credit unions generally are quick adopters of technology. We are a financial technology provider. So, we simply work to offer the best products and services out there. If we can do that, we believe credit unions will give us a shot. Because of the fact that credit unions have a limited number of branches, they have to rely on technology more than say a large financial institution that has thousands of branches across the country.

CEOCFO: ***Would you give us an example of how your services are different?***
Mr. Clark: One very unique service is the share branching model. We are really the only people out there who offer that on a nationwide scale. Entering this market is challenging because it is hard to set up a network of all of these credit unions and hundreds and hundreds of interfaces. That in itself is unique. In addition, our CO-OP ATM network also makes us unique, with more than 30,000 ATMs across the country. Having somebody come over to us or want to join one of our two networks or both of our networks is all about the strategy of the credit union; do they want to expand beyond their own local neighborhood or local? If they do, our products and services are of interest.

CEOCFO: ***Are there credit unions that do not want to grow?***
Mr. Clark: There are some that are still focused on a small field of membership in a remote area and really want to serve their community and that is their charter. Unlike a bank or other financial institutions, credit unions are not owned by shareholders and are therefore not pursuing the same profit model. Instead, they have members and they are member-owned, so everything they do is for the benefit of their membership. If it does not make sense to go to the next town to benefit their membership, then they will not go to the next town.

CEOCFO: ***Would you tell us about the acquisition of TMG and your restructuring?***
Mr. Clark: TMG had been a long-time, "full-service credit" partner of CO-OP's. There are two ways to do credit card processing. First, there is full- service, which means that the company that you are buying it from runs your programs, helps you manage your portfolio and helps you grow your portfolio through programs and marketing. Second, there is in-house, which means you have an internal staff that does the processing. CO-OP has industry leading debit and in-house credit processing, but we did not have a great full-service credit processing arm. TMG most definitely did. So, we went out and partnered five years ago with TMG and because of that partnership, we both experienced wonderful growth. As I was looking at it, it appeared to me that we had done some great things, but we could go a step further with a deeper integration of our product sets. I considered credit union back office processing, how they work with their card providers and how their members use those card providers. A deep integration utilizing the same tools and same services for both your debit and your credit card makes a ton of sense. When I looked at it, a more integrated partnership or an acquisition

by CO-OP made the most sense. I went and spoke with the folks who had controlling interest to TMG. We talked about both options and decided it was best that we went down the acquisition track. That started at the beginning of this year and we quickly got to a purchase price that we were both excited about and we closed that transaction on March 31. Among the benefits of the acquisition is that we gained a fantastic product leader in Shazia Manus, TMG's CEO. She has driven their product set forward over the last five or six years. In my opinion, she has done a fantastic job and I think the whole industry would agree with that. We were able to get her to come onboard as our Chief Product and Strategy Officer. We also had our head of sales and relationships retire, so we brought on board Matt Kardell, I think we will make great strides there as we evolve the sales force of TMG and CO-OP. We also added a CIO, Nick Calcanes, who provides a comprehensive vision for the entire company's IT team and infrastructure. The company is going to be near $500 million in revenue and about 1,500 employees and that requires a certain mindset and skillset, so we went out to pull in top talent.

CEOCFO: ***How do you help credit unions with fraud?***
Mr. Clark: There are many different ways in which we are working with credit unions to fight fraud. One example is "card present" fraud on both debit and credit transactions, which is when you take out your piece of plastic and use it at a retail store. There is also "card not present" fraud, in which you use your card on-line or on your mobile phone. Then, there is account take-over fraud, in which fraudsters gain access to legitimate accounts. Working with our credit unions to implement EMV (chip cards) is how we are helping to fight card present fraud. As EMV cards continue to roll out across the country, that fraud will be significantly reduced. What that will do is drive fraud into a card not present- and account takeover-type fraud. We have industry-leading fraud technology already installed on our card services system. We are also implementing a machine learning platform right now in CO-OP that is going to handle not only card fraud, but we anticipate opening up a new set of services later this year for account takeover fraud.

CEOCFO: ***Is cost a big factor when credit unions are looking for services?***
Mr. Clark: Yes, that is why a service aggregator like CO-OP is an invaluable resource to the credit union industry. Beyond our core processing services, we look for opportunities to differentiate ourselves. What we do after the fact is where we make our money and where we hope to secure the credit union's business for the longer term.

CEOCFO: ***What do you look for in your people?***
Mr. Clark: I think that most credit union leaders are very much great business people. Because they have a membership base, they take a slightly different approach to business management. They seek to treat their members as owners rather than just customers, and I think this leads to a higher level of service. As a manager, I look for people on my team who are thought leaders, able to think outside the box. We do not want somebody who is just focused on driving the bottom line because that does not always solve our problems. Driving the bottom line is important but the reality is that we have to be able to put ourselves in the membership and our owner's shoes and make their lives better.

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