Trevor Hyre, Chief Operating Officer of Pioneer West Virginia Federal Credit Union, was heads down on Pioneer’s 2012 planning when he sensed that something might not be right within the company’s loan portfolio. Loan payoffs seemed to be running ahead of plan, threatening to decrease interest income and thus dampen revenue growth in the coming year. If such a trend were real, Pioneer’s Chief Lending Officer would need to act fast to reverse it.

Chief Financial Officer Dan McGowan had barely sat down at his desk that morning when Hyre approached him to discuss the situation. After reviewing the data at hand, they agreed that a more granular view would be needed to get to a true measure that they could act on. Hyre left and McGowan got to work. Within a matter of minutes, McGowan had drilled down to discover that loan paydowns were proceeding faster than expected and that insights about loan types, maturities and other variables told a deeper story of how the loan portfolio was performing. That meant goals would need to be realigned and plans put in place to replenish the loan portfolio. But upon hearing the news from McGowan, an upbeat Hyre was focused on the silver lining. “It may not be good news, but at least we know it today and can respond now, when it matters most,” Hyre explains. “It means we’re not making the wrong plans based on bad assumptions.”

Pioneer West Virginia Federal Credit Union:
Using insights to improve financial performance while making a difference
The benefits of the Pioneer WV Federal Credit Union’s solution

- 95 percent reduction in loan delinquency ratio in first year of implementation, the lowest of any WV credit union
- 21 percentage point increase in loan-to-share ratio, from 55 percent to 76 percent
- 14 straight months of growth in the loan portfolio
- Highest return on assets (0.81 percent) among West Virginia’s six largest credit unions (Avg.: 0.10 percent)
- 50 percent reduction in time and costs associated with filing quarterly reports with the National Credit Union Administration

The fine line for credit unions

This example illustrates informed, realistic decision making in action. It shows the kind of proactive thinking that the most successful credit unions need to stay that way in an industry where the operational margin for error is slim, coasting isn’t allowed and effective management is important day in and day out. And it gives an idea why Pioneer has some of the strongest performance metrics—in areas like loan growth and delinquencies—among its West Virginia peers. But just how accurate a slice of Pioneer’s everyday practices does this vignette represent?

While today the answer is “very”—and becoming more accurate every day—the prevalence of more data-driven practices at the Charleston-based company is a relatively new thing that can be traced to a series of developments that took place over the summer of 2010, events which put in place the will, the means and the leadership to drive change. It began with an infusion of new blood into Pioneer—at the top. Indeed, from the moment Dana Rawlings came on as Chief Executive Officer, he showed a restless drive to get fresh, accurate and actionable information in front of the company’s decision makers. As he came to grips with far-flung information that was often weeks old and had to be stitched together to get even a reasonably clear picture, his frustration grew and, more importantly, his will to change intensified.

Seeing eye to eye on change

When McGowan joined Pioneer as CFO three months later, he quickly struck up a rapport with Rawlings; it was soon clear they had a lot in common. Both had come from larger institutions, where they had demonstrated a propensity for shaking things up, and both shared a fervent belief in the value of data-driven decision making. Within just a few weeks of McGowan’s arrival, the like-mindedness came out through a series of ad hoc discussions in Rawlings’s office. “He was emphatic that Pioneer can’t expect to make bad decisions and stay in the business for long.”

Rawlings’s concerns were well founded, for at the time Pioneer was experiencing a steady contraction of its loan portfolio and lacked the operational insights needed to reverse it. In the course of their discussions, McGowan recounted how he had addressed a similar challenge in his previous position by using IBM Cognos TM1 to create a real-time decision support framework that had a profound effect on nearly every process. The more Rawlings heard about McGowan’s experience, the more convinced he was that TM1 could enable the kind of proactive, fact-based decision culture he sought to instill at Pioneer.

“What I got from the CEO was a sense of frustration at having to make important decisions essentially blindfolded and how that isn’t sustainable in our business climate,” says McGowan.
Leadership is:

Becoming an active advocate for new approaches

CFO Dan McGowan knew from direct experience the many ways real-time information could transform key credit union processes. He also knew he needed to take an active role in sharing its potential and in changing mindsets. “In most credit unions, the ‘established’ ways of doing things are often deeply embedded, so diffusion of innovation doesn’t come naturally,” McGowan explains. “My aim was to catalyze that adoption by showing our people what was possible.”

Lesson learned:

Demonstrate the benefits at the top

The fact that McGowan had strong C-level support from the outset set the tone for the entire project. Demonstrating the benefits for the CEO and COO was the key to establishing it. “Departmental support is important,” McGowan says, “but the value delivered to the CEO was the biggest factor in selling it.”

A fast track to insights

Ultimately, the vitality of economic development—whether at the city, state or national level—hinges within a matter of weeks, the implementation was under way. By the following January, just three months after arriving at Pioneer, McGowan unveiled the first iteration of the company’s real-time dashboard to Rawlings and his fellow managers. Almost overnight, the so-called “daily status report” became the definitive source of information for Pioneer’s decision makers, providing real-time metrics on such vital statistics as delinquencies, loan portfolio performance and the overall state of the balance sheet. Both McGowan and his CEO recognized that the fundamental feat—making critical information available to decision makers in real time—represented not only a turning point for Pioneer, but also a starting point.

Optimized processes make a difference

Pioneer’s mission is to act in the interest of its members by strengthening the performance, and thereby the health, of the organization over the long term. But what defines credit unions even more and drives the people who run them is making a difference in people’s lives. This certainly matters to McGowan. He saw the opportunity to extend the solution to create an early warning system for potentially delinquent loans that would enable Pioneer’s collections staff to detect problems while they’re still manageable and come up with creative solutions, like restructuring terms, to help members avoid defaults and get back on track. Has it worked? In the years since the detection system was implemented, Pioneer’s delinquency ratio has fallen an astounding 95 percent, to just 14 basis points—lower than any of its West Virginia competitors and among the lowest in the nation.

At the same time, Pioneer’s solution has also enabled it to expand its loan portfolio and strengthen its income stream by providing up-to-the-minute insights to Pioneer’s lending officers, who guide future lending decisions. “For credit unions to optimize their loan portfolios, having knowledge of where they stand and what they have to work with is fundamental,” McGowan explains. “Our solution lets us see where we’re going, so we can make the right decisions at the right time.” Gaining that visibility enabled Pioneer to reverse the downward trend discussed above, with the company posting 14 straight months of loan growth in the project’s immediate aftermath. That corresponded to an increase in Pioneer’s loan-to-share ratio—a key index of how effectively credit unions put deposits to work—from 55 percent to 76 percent.

“Our belief is that business value ultimately derives not from what you have, but how you use it,” McGowan explains. “In our vision, that means smarter processes that help us execute our mission more effectively.”
From insight to opportunity

Under Rawlings's leadership, Pioneer has also looked increasingly to mergers with other credit unions as an important source of growth, including geographical expansion into outlying communities. In such cases, advantage accrues to credit unions that can combine rigorous, data-driven due-diligence techniques with speedy decision making; in short, those that can deal from a position of strength. That's exactly what Pioneer is doing today. Leveraging the solution's "what if" capability, Pioneer is able to perform financial simulations of different merger scenarios almost instantaneously by modeling postmerger loan portfolios, capitalization levels, depositor profiles and other key measures that indicate which mergers make the most sense for Pioneer’s long-term future. “We’re able to get a very good sense of the economic value of a merger very quickly,” says McGowan. “That gives us the agility to capitalize on merger opportunities faster than others, along with the insights we need to ensure the best decisions—and the best interests of our members.”

An equally important measure of the solution’s transformational impact is the extent to which it has become a part of Pioneer’s everyday workings, from ongoing big-picture planning efforts to teller staffing at the branch level. It’s there, for instance, when the Asset Liability Committee, consisting of the CEO, CFO, COO and marketing VP, convenes every month to make the core decisions on how to best utilize assets, acquire funding and balance risks. It’s integral to Pioneer’s ever-growing regulatory compliance reporting to the National Credit Union Administration. And it’s the central reason that Pioneer’s board is delighted at getting more and deeper insights than ever at its monthly meetings.

Pioneer WV Federal Credit Union: The parameters of smarter credit union management

Instrumented
Pioneer’s solution aggregates multidimensional data from core operational and financial systems to deliver timely operational and regulatory information.

Interconnected
The solution automates many financial reporting tasks and delivers tailored daily reports and dashboards to diverse groups of users throughout the organization.

Intelligent
Predictive insights into loan delinquency enabled Pioneer to identify problem loans before they became critical and to intervene to get members back on track.
A revolution in thinking

McGowan also notes that the solution has spurred a minor revolution in the mind-sets of Pioneer’s employees, many of whom now actively seek ways to optimize operational decisions where true optimization didn’t seem possible before. “Seeing what we’ve been able to do so far has inspired more creative, out-of-the-box thinking of other ways to make processes smarter,” says McGowan. “We’ve been able, for example, to optimize our coin and currency orders [across the branch network] against carrying costs. And with insights on our teller activities branch by branch, hour by hour, we’re now much more efficient in scheduling our teller resources.”

Having worked in commercial banking early in his career, McGowan was drawn to credit unions because they offer more freedom to think long term and to embrace what he sees as a more people-centered set of values. What resonates most for him are examples of how Pioneer was able to spot financial problems at an early stage and work hand in hand with members to get them back on an even keel. “When crisis hits, our priority is to help our members through these times,” says McGowan. “That’s the kind of experience that a member never forgets—and motivates us to keep Pioneer strong.”